Nation's Business

A USEFUL LOOK AHEAD

AUGUST 1964

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Many distinguished business organizations have made the rewarding discovery that a company-owned Cadillac is an extremely wise investment. There are many sound financial reasons for this. First, Cadillac's cost is relatively little more—and a major portion of this difference is returned at trade-in. Second, the car's extreme dependability, minimum maintenance and operating economy rivaling many smaller cars look good on any company's books. Finally, Cadillac's superb performance and comfort win the enthusiastic approval of every man who must spend more than the usual number of hours at the wheel. If you have not yet introduced your company to Cadillac, visit your authorized dealer and get the facts.

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Nation's Business

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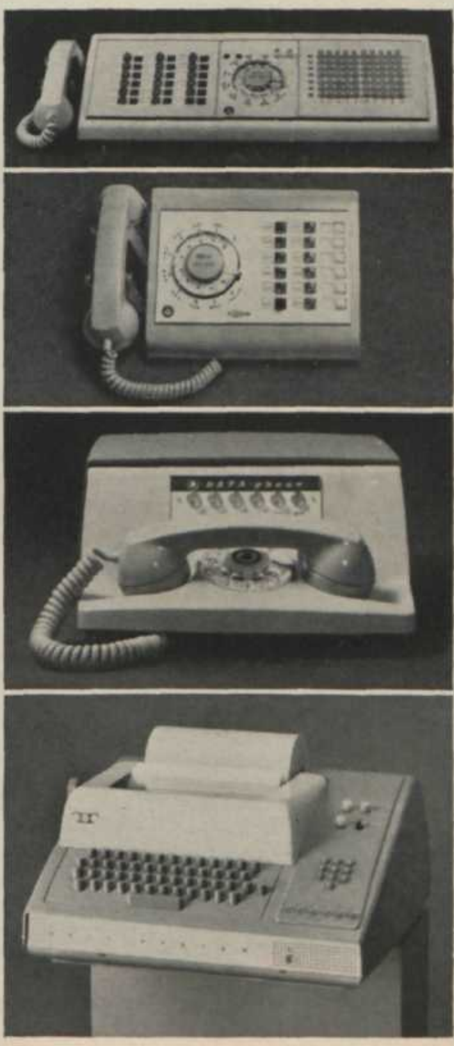

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TRANSPORT-200 DRIVE WHEEL TRUCK TIRE

WASHINGTON **BUSINESS OUTLOOK**

Americans will buy more than three million new cars for cash this year.

Another five million plus will buy on installment.

Estimate comes from fresh look at auto-buying trends as industry speeds toward probable 8.2 million production.

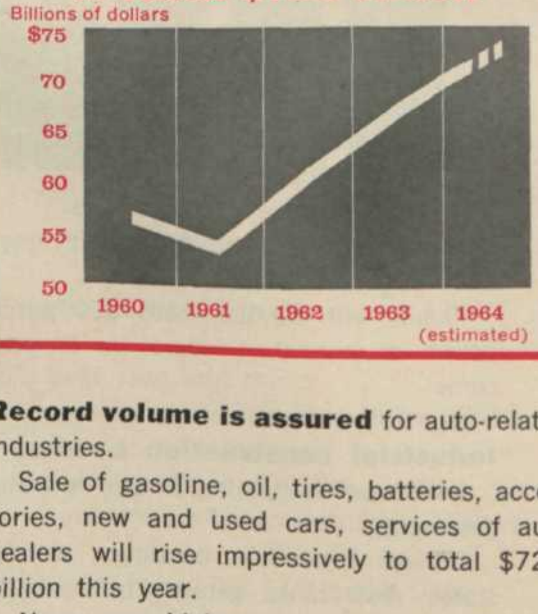
This tops '55 best-production year by sizable margin.

Also exceeds earlier estimates that total output would range around 7.8 million cars this year.

California may be first state to buy more than a million cars in one year.

New York will come in second with sales estimated just under a million.

Auto industry sales to reach $72.5 billion



Record volume is assured for auto-related industries.

Sale of gasoline, oil, tires, batteries, accessories, new and used cars, services of auto dealers will rise impressively to total $72.5 billion this year.

Never was higher.

Watch exogenous forces for signs of future business change.

This old textbook term has new implications for U. S. economy.

It means something could happen somewhere else, something outside the purely domestic business system which could have upsetting influence on business in your hometown.

Possibility of broader war in Asia is one example.

But there are others.

Europe's economic health currently is being microscoped by U. S. trend-watchers.

Reason is that developments there during next couple of years could be more important to U. S. economic growth and stability than at any time in past decade.

U. S. business problems could be sparked by failure of Europeans to check inflation, for example, or by possibility of some sort of business downturn.

Keep these facts in mind: Stabilization plan in France checks prices, ignores rising production costs. Credit restrictions in Italy make cash businessmen need harder to raise. Borrowing costs rise. Common stock prices falter.

To you as businessman this means:

Whatever happens next to change business outlook in America may stem from abroad.

Washington economist puts situation in this perspective:

"On the whole you can be optimistic. It's a good bet Europe will continue to thrive. Many problems there today arise from prosperity.

"But prosperity in Europe is worth watching for signs of change that could cause economic ripples on Main Street, U. S. A.

"This, because of current developments, will be especially important during the next year or two.

"Main thing about Europe is that it could influence business in America two ways.

"One is adversely.

"That could happen if their economic prob-

lems go unsolved. But the greatest opportunity for American business—for the long run—is that we will share in Europe's prosperity."

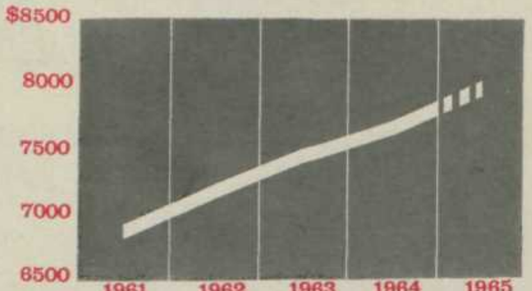
Standard of living in America will reach another milestone next year.

It's all but sure that average family income will round out at $8,000 in '65.

Also indicated for future:

Probability that average for all Americans will reach $10,000 annually by '72.

Steady climb ahead for family income



Average income before taxes (estimated)

At top end of affluence scale, more than one out of five American families now enjoys $15,000 or more yearly pay.

Government study shows size of this group is growing by 400,000 families a year.

About a million a year join ranks of those with $10,000 or more.

Number with $4,000 or less is going down steadily, may be 700,000 families smaller a year from now.

Many of these lower-income families are those living on retirement income.

Creeping inflation goes on unchecked.

Wholesale prices fluctuate only a fraction of one per cent.

Index is actually lower now than at beginning of year.

This all-commodities index has been stable in this manner for nearly seven years.

For future, it is expected to inch up a little as months pass, may be about half to three quarters of a percentage point higher by Christmas.

No more rise than that.

But consumer price index shows continuing increase.

During same seven years it has gone up more than one and a quarter per cent per year.

Average is made up of some prices that go down—food, for example, which government says costs less now than a year ago.

And some prices go up—services, for example, which cost 15 per cent more than seven years ago.

Wholesale index excludes services, thus doesn't reflect this kind of rise.

For future, consumer price index is going up an expected two per cent a year, or about half again as fast as it has been.

Economists warn such creeping inflation is important because it reduces purchasing power of $10,000 income by $200.

And inflation plays no favorites.

Family of four with $5,000 income loses $100 buying power.

Family with $3,000 loses $60 purchasing power—or more than federal tax on year's income.

Industrial construction booms.

Investment is running 25 per cent ahead of year ago.

Outlays for office buildings, warehouses, stores, restaurants, garages trail with 12 per cent advance.

Spending for churches, schools, hospitals, recreational buildings also runs far ahead of year-ago records.

Any laggards?

Yes. Residential building advances less than average for total construction. New homes are being started at roughly same rate (lower in some areas) as past year.

Apartments are going up a little faster in most cases.

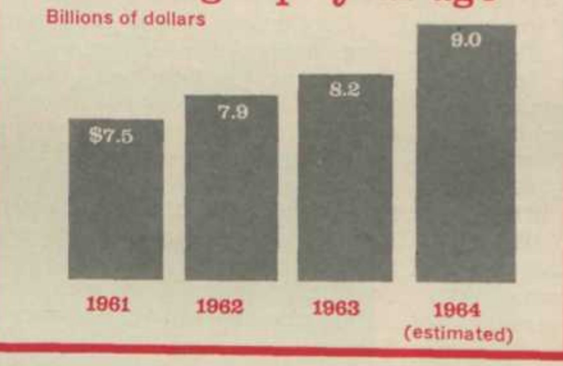
But there's concern about future sales of luxury apartments.

There's concern, too, in some cities that office space may be temporarily overbuilding.

On the whole:

Total new construction will advance eight to 10 per cent this year—healthy increase.

Commercial and industrial building tops year ago



Rosy outlook could pale during autumn next year.

That's next year, not this.

It's something you can expect to be talked about more in months to come.

What's behind it?

New York University professor of finance explains:

"We used to have the Six-Months Club.

"Business looked good up to six months and caution was by-word beyond that.

"Now we have more information and better forecasting tools.

"So it's safe to predict good business up to a year ahead. Beyond that you must mention need for caution.

"Actually there's no good reason at this time to expect a new downswing in the foreseeable future—including fall '65.

"But some forecasters will talk about it as if that's when the ax will fall.

"This really only emphasizes the truth that you can't forecast accurately that far in advance."

East Coast executive of large manufacturing company agrees.

He points out:

"There is no need to figure on a future downturn merely because the outlook is so good now that you think it can't last."

Here's view of a Chicago banker:

"I know of no infallible forecasting technique which enables one to peer more than a year into the future.

"Therefore, we will have to wait for developments during this year to formulate any useful views for 1965."

At the moment—no soft spots in sight.

Law boosts some wages next month.

On Sept. 3 pay for an estimated 3.6 million workers in large retail and service industries will go up from $1 an hour to $1.15.

Law also reduces allowable overtime work without penalty pay.

Next rise:

Coming in September next year when pay will be hiked to $1.25, matching pay floor for workers previously covered.

Federal wage-fixing law now covers total of 27.5 million employees.

Look for big drive in Congress next year to hike lowest pay to $1.50 an hour.

There'll be pressure, too, for extension of coverage to millions of additional workers.

Business opinion:

Agriculture Secretary debates food prices

I READ WITH INTEREST your article, "Government Keeps Food Prices High," in the June issue of NATION'S BUSINESS. Some comments need to be made to give perspective to the food price situation in this country.

Whether food prices are high or low depends on the basis of comparison. When food prices are related to consumer income, they are not high; in fact, they are lower than at any time in our history. Today, the consumer spends less than 19 per cent of his take-home pay for food, including food eaten away from home. For this amount, he enjoys a high quality diet and can choose from a variety of products.

The expenditure of 28 per cent of income for food by low-income families mentioned in the article is lower than it was in earlier years. In 1950, for example, the lowest income classes spent an average of 35 per cent. Even though the share spent for food has declined somewhat, assistance is being given these families through direct distribution, the food stamp plan and the school lunch program.

The various farm programs were designed to reduce the frequency and severity of price adjustments common to agriculture. Though these have helped some, they still do not provide farmers with incomes comparable to other groups. Nevertheless, farmers and the food industries are providing us with the most abundant food supply in the world and at a reasonable cost to consumers.

Since World War II, the farmer's share of the consumer's dollar has gone down while that going for marketing functions has been increasing. Though these costs have been rising, increased productivity has kept them from rising as fast as prices of input factors.

The possible impact of marketing costs on retail prices can be illustrated by changes in bread prices. For example, in 1963, the average retail price of a one-pound loaf of white bread was at an all-time high of 21.6 cents–0.4 cent higher than the 1962 price and 60 per cent higher than the 1947-49 average. Farmers received 3.1 cents from the ingredients, the same as in 1962, but 0.2 cent less than in 1947-49. Wheat accounted for 2.5 cents of the ingredients' total, 0.1 cent less than in 1962 and 0.2 cent less than in 1947-49.

If prices of flour and bread are raised, factors other than the price of wheat will be the chief cause. The price of wheat to millers during the crop year 1964-65, including the cost of certificates, is expected by the Department to be about the same as during the crop year 1962-63 when the national price support level was also $2 a bushel.

Concerning federal milk marketing orders, the Department sets prices paid to producers to reflect supply and demand conditions. If, instead, these were set to compensate for increased prices of things farmers buy, prices currently paid to farmers for milk would be about one fourth higher than they are.

Federal marketing orders do not set prices of milk at retail. Some state agencies set wholesale and retail prices, but the Department has never done so.

I would like to point out that, during most of the last 10 years, increases in the consumer price index have been due primarily to the rise in prices of some nonfood items and services. During this period, prices of food purchased for use at home increased seven per cent while rent went up 18 per cent; medical care, 39 per cent, and public transportation, 44 per cent.

ORVILLE L. FREEMAN
Secretary of Agriculture
Washington, D. C.

Prices and quotas

The article builds up a theoretical case against the International Coffee Agreement and concludes: "Thus, producers, seeking higher prices, could well block the demand for larger quotas. U. S. consumers

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. . . would have to pay more for their morning cup in the interest of aiding Latin America."

But, as a matter of fact, the producers twice have voted to increase the coffee export quotas at the request of the consuming nations.

Assistant Secretary of State Thomas C. Mann has testified before a congressional committee: ". . . if we hadn't had this agreement, the price rise might have been much larger than it has been."

John F. McKiernan, president of the National Coffee Association, who is spokesman for the U. S. coffee trade, recently declared: ". . . without an Agreement, we have no recourse to relief nor any protection against a price spiral."

E. B. DEXTER
Manager
Pan-American Coffee Bureau
New York, N. Y.

Value of parties

Regarding the letter by Mr. Albert C. Ferdon published in your June issue, I am quite surprised that a person of Mr. Ferdon's background would not have studied the two major parties thoroughly enough to be associated with either one.

Each of us in America (definitely including businessmen) today should study both parties, join the one that most closely parallels his beliefs, and then support it fully.

By doing this, along with helping to get candidates of their choice nominated and elected, they become better informed on the whole process of American politics and government.

NICK L. DIDIER
District manager
Black Hills Power & Light Co.
Hot Springs, S. D.

Pay moving up

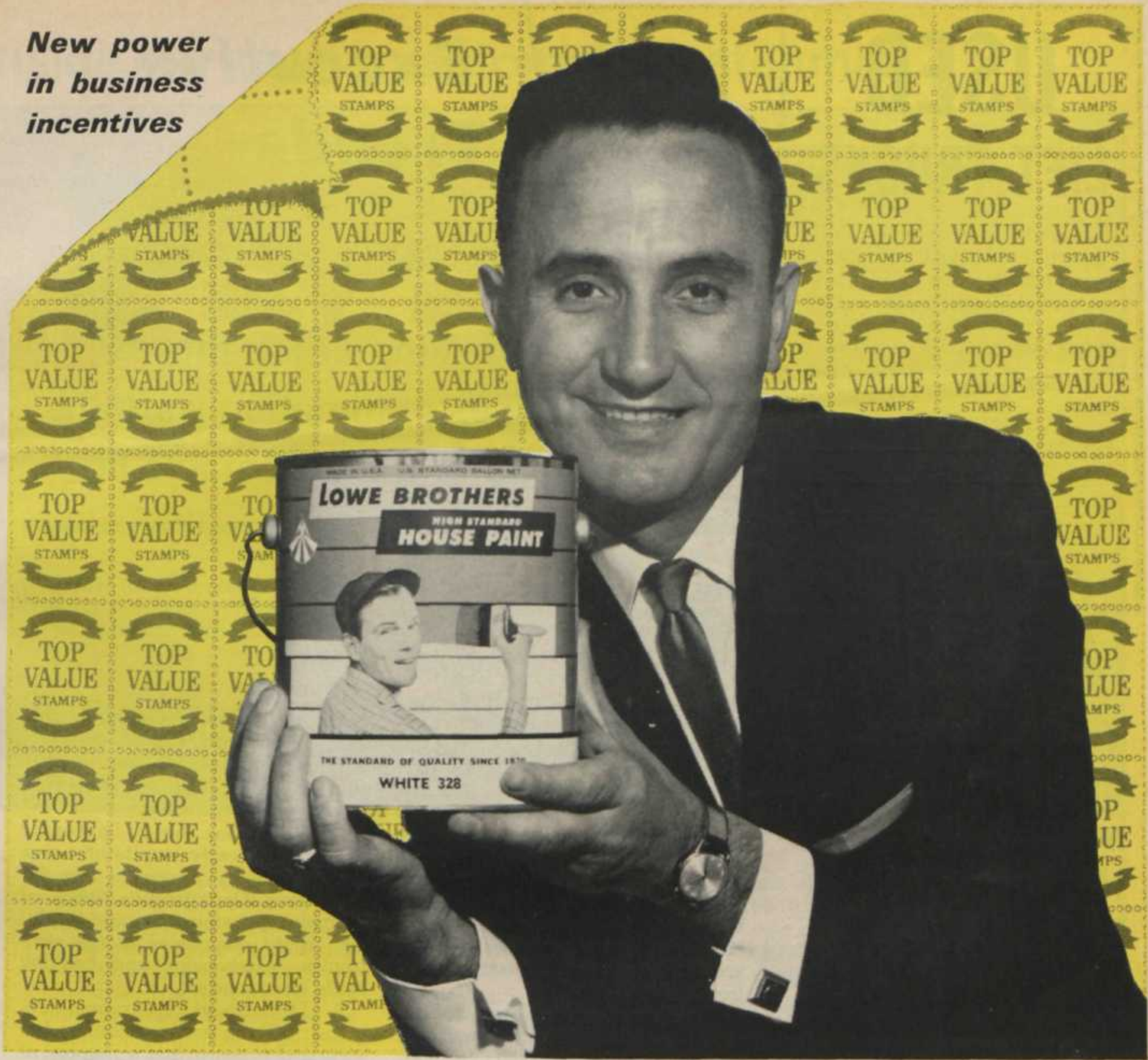
In May "Washington Business Outlook," you have an item starting with "Factory pay exceeds \$2.50 an hour—moving steadily up."

Will you please advise me if you used actual wages for your chart. Would it also be possible for you to give me a breakdown on your chart?

DON S. STRAUSS
President
Majestic Wax Co.
Denver, Colo.

► *Actual hourly pay for manufacturing at that time was \$2.52. Average was \$2.70 an hour for durable goods manufacturing and \$2.28 an hour for nondurable goods manufacturing. Averages now are higher.*

New power in business incentives



M. P. Calvitto, sales promotion manager, Lowe Bros. Paint Co., Dayton, Ohio

His salesmen created 15% more new business on a Top Value Stamps incentive plan! Unusual? No.

Top Value Stamps are <u>any</u> <u>man's</u> most powerful incentive...economical, efficient, effective. Had you known that, this could have been <u>your</u> story.

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Executive Trends

- Wives balking at job moves
- Study raises automation warning
- Dilemma of the acceptable lie

Wives are beginning to put the brakes on job-switching by their executive husbands.

That's the word from William A. Hertan, president of Executive Manpower Corp., one of the nation's leading recruiting and counseling organizations.

In the past six months, he tells NATION'S BUSINESS, distinct signs of a distaff revolt have been appearing. "There have always been wives reluctant to go along with their husbands' decisions to take new jobs with new companies in new locations. But now such cases are popping up with much greater frequency. It could mean trouble."

Mr. Hertan says his firm has handled more than 10 cases in recent months in which men declined jobs ranging up to $50,000 in salary because their wives didn't want to go.

Why not?

A variety of reasons. In some cases the ladies simply are weary of geographical relocation. In others, concern over taking the family's children out of school and away from familiar surroundings plays a part. In still other instances there seems to be fear on the part of the wife that the husband might fail in the new job.

Says Mr. Hertan: "I believe women are displaying a greater need for more basic security than before. The picture isn't completely clear. But with our continuing increased need for job mobility in executive ranks the development bears close watching. It might become necessary to do more educating of wives to the need for geographical changes—even within a single company—because such movement has become essential in today's business."

• • •

Some businesses are plunging into automation without first carefully weighing its probable impact. Result: Needless loss of manpower, money, morale, efficiency.

Evidence that this is happening shows up in early results of a new study made by a private firm for the Labor Department's Office of Manpower, Automation and Training. Eight companies in the electronics, warehousing and banking fields were studied.

A Department spokesman declares: "From early findings I'm surprised to learn that a number of organizations didn't nail down in advance some of the cost and other implications of the move to plant or office automation."

Researchers examined such factors as the amount of planning that preceded the decision to automate, assessments made of what automation would do to company employment and so on.

Job displacement as a result of automation was found to vary all over the lot, according to one official.

Note: You'll be able to get more details when the study becomes available in published form this month or next.

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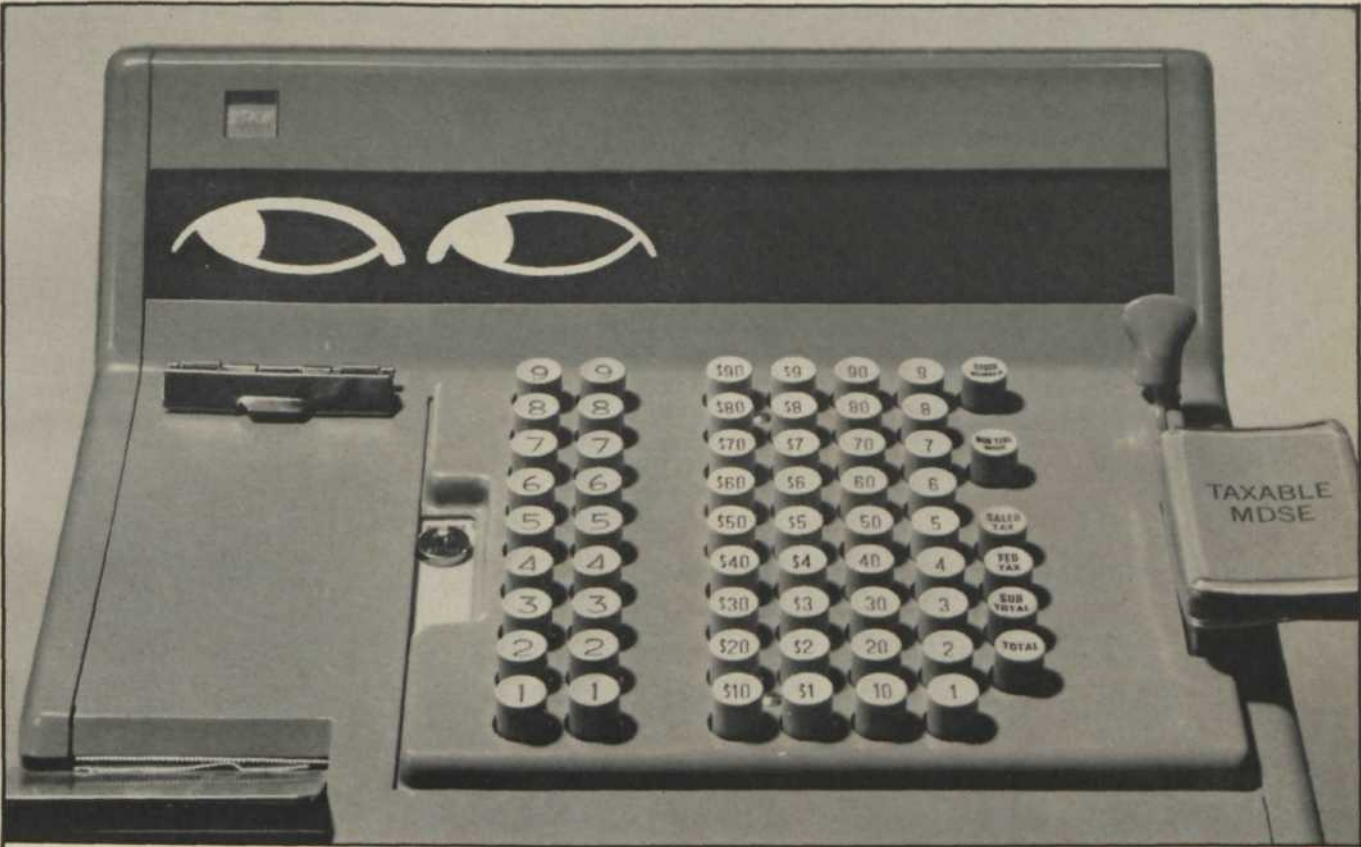
Is there such a thing as an acceptable lie in business?

A group of administrators, meeting recently in Washington, heard

Inside we have an automatic watchman.



No slip ups are possible with the new merchandise control system NCR has devised. Here's how it works. Your cashier starts to ring up a sale of unit controlled merchandise. The NCR Register is pre-programmed to recognize the classification number of this merchandise. Immediately it causes special interlocks to take over. These force the cashier to record the unit stock number in order to complete the sale. Thus vital unit stock data is captured without fail and instantly converted into automation language. No more inventory errors because of incomplete information. No waiting for merchandise information to be converted into automation media at a high cost in time and back office clerical work. For complete information on how NCR Registers can enforce recording of unit stock data, call your local NCR Representative. Or write to NCR, Dayton, Ohio. 45409.

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THE NATIONAL CASH REGISTER COMPANY ®

EXECUTIVE TRENDS

continued

Melville Dalton, research professor of sociology at the University of California, Los Angeles, raise this question. The executives agreed that some degree of deception is essential in the life of an organization.

"The little white lie has been called the cement of civilization," Prof. Dalton put it.

Example: Suppose your boss gives you an advance look at a sweeping reorganization scheme for your company, but instructs you not to discuss it with anyone. Later, an associate asks you if you have heard anything about such a plan. You deny that you have. Is the denial a lie?

Or, what if you are given a pay raise in excess of the usual amount and your employer tells you not to discuss it with anyone under any circumstances. If you are pressed by a co-worker and you deny that you have been given a raise, are you lying? More than an exercise in semantics is involved here. Real-life problems arise as in a major industrial organization which recently found itself agonizing over what action to take when several young key managers who had received above-normal increases talked loosely about them and roiled morale.

• • •

If your firm is making extensive use of outside services it is in good company.

At the request of NATION'S BUSINESS, delegates to a management conference were asked to indicate which services they are presently using.

Here is how the replies break down:

Ninety-eight say they use temporary office workers; 16 use payroll services; 23 hire mailing service; 57 utilize outside data processing services; 31—microfilm services; 44—reproduction services; 23—outside training; 19—records storage, and 67 lease machines of various types.

A related question was: Do you have a computer? Of those responding, 136 say yes, 134 no.

• • •

The costly tangle of government red tape soon may undergo some healthy scissoring.

This could mean a savings of millions of dollars for American


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NAVY

EXECUTIVE TRENDS

continued

businesses, according to Rep. Arnold Olsen, Democrat of Montana. He heads a subcommittee which has been looking into the cost to business of various reports required by government agencies. Many such reports could be simplified or dropped altogether, according to Congressman Olsen.

His group will make specific recommendations.

Here's an illustration of the problem:

A medium-sized manufacturing concern may spend as much as $250,000 a year to comply with requests for information from the federal government. That estimate comes from Joseph W. Gawthrop, president of the Administrative Management Society, another group with an interest in controlling paperwork costs.

• • •

Keep your eye on finance and marketing.

They're likely to be the most promising areas for executive job-seekers in remaining months of 1964.

Demand for managers is generally high, although some authorities report that openings for engineering and technical specialists are at their lowest point in 15 years.

Professional recruiters forecast continued rising demand for top talent and say they see no evidence—from client orders—that the present strong surge in business is ebbing.

• • •

Ever wonder what an average managerial job-seeker is like?

There are no average men, of course. But one recruiting firm puts together this portrait of the typical sales/marketing executive who has his eye out for a new position:

He's 41 years old, earns $19,800 a year and has had most of his experience with a company, rather than an advertising, sales or marketing agency. He lives on the East Coast, has one and a half college degrees (B.A. plus credit toward a Master's) and says he wants to change jobs to find new opportunity.

The composite portrait was assembled after analysis of 40 resumés received in a recent three-day period by the recruiting firm.

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KODAK READYPRINT Copier, first choice for fast single-copy needs.

Which of these all-new KODAK copiers is right for you?

Here's a new approach to office copying from Kodak, which recognizes the two basic copying needs.

One is the frequent need for *more* than one copy of originals. The VERIFAX CAVALCADE Copier is designed to meet it. The other is the need for single copies, only. Kodak steps ahead with the KODAK READYPRINT Copier to fill that need with low-cost efficiency.

You get up to seven crisp, legible, low-cost quality copies from one sheet of matrix with your VERIFAX CAVALCADE Copier—sparkling single copies in seconds, at a lower cost, from the KODAK READYPRINT Copier.

Either of these handsome automated units delivers ready-to-use, long-lasting copies on high-quality bond-type paper.

Both have cartridge loading. You never handle solutions.

See these handsome new copiers at your Kodak Copy Products dealer's. Visit his Copy Center today, or write EASTMAN KODAK COMPANY, Rochester, N. Y. 14650, for informative brochures.

New advances in office copying keep coming from KODAK

Presidential race is never a sure thing

BY PETER LISAGOR

TO BE A BIT melodramatic, but not wholly inaccurate, about the Leap Year revelries known as the political conventions and campaign, this is the season of the big wind and the night of the long knives. Yet, amid the overblown oratory and the feudin' and fussin', there is an obscure logic. Out of it emerges a President. After the November election, the winner will move to patch up the superficial wounds and to drain the bilge from the exhausting campaign of pride-pointing and alarm-viewing, and then get on with the business of running the government. And, as history records, the nation has survived this ordeal for a good many years, not aways badly.

Few dramas on the national stage can match a presidential campaign. It has, depending upon your politics, its villains and heroes. It also has its humor and sadness and suspense. It is a sweet-sour confection of lost causes and high probabilities, of deceit and dedication. Characters in the drama sometimes betray their cussedness, as well as their kindness. It is a stern test for the principals in which some grow in stature, a few shrink and others go their even way to glory or oblivion.

• • •

This is a variable experience in American life. Despite the advent of the polls and the smug computers, the outcome of the drama is often less predictable than the weather. Professional politicians who pride themselves on their judgment can be quickly turned into false prophets; the sure-thing promoter is made to seem a fly-by-night operator without a license.

Few men in the steamy Chicago Stadium in 1932 would have bet a nickel that the Democrats were nominating a candidate who would eventually break every precedent in the political book. Indeed, one of the most astute, if also the most acerbic, of the experienced observers at that convention, H. L. Mencken, believed that in Franklin D. Roosevelt the Democrats were choosing their weakest candidate. Listen to Mencken, who was occasionally suspected of writing about politics with what seemed to be a blacksmith's bellows and a sulphur-burning forge instead of a typewriter:

"It would be hard to find a delegate who believes seriously that Roosevelt can carry New York in November, or Massachusetts, or New Jersey, or even Illinois. All of the crucial wet states of the Northeast held out against him to the last ditch, and their representatives are damning him up hill and down dale today. Meanwhile the Southern and Middle Western delegates are going home with a tattered Bible on one shoulder and a new and shiny beer seidel on the other, and what they will have to listen to from their pastors and the ladies of the W.C.T.U. is making their hearts miss every other beat."

BROWN BROS., WIDE WORLD, ACME

Weakest candidate | *Certain winner* | *Inevitable nominee*

If this sounds like a man made bilious by the heat and the noise, hold on. Mencken has just begun to deliver his dark and Delphic judgments about FDR. Observing that a curiously fantastic quality hovered over the whole proceedings, he wrote from that Chicago convention:

"Here was a great party convention, after almost a week of cruel labor, nominating the weakest can-

Peter Lisagor is White House correspondent for the Chicago Daily News.

didate before it. How many of the delegates were honestly for him I don't know, but certainly it could not have been more than a third. There was absolutely nothing in his record to make them eager for him. He was not only a man of relatively small experience and achievement in national affairs; he was also one whose competence was plainly in doubt, and whose good faith was far from clear. His only valuable asset was his name, and even that was associated with the triumphs and the glories of the common enemy. To add to the unpleasantness there was grave uneasiness about his physical capacity for the job they were trusting to him."

But in November FDR carried every state, and more, that Mencken had denied him in July. He went on, of course, to win again in 1936, 1940 and 1944, shattering the two-term limit and shaking the confidence of Mencken's literary heirs for a long time to come.

• • •

Political prophecy took its most severe drubbing of modern times, however, in the impossible victory of Harry S. Truman in 1948. The G.O.P. nominee Thomas E. Dewey was so thoroughly convinced that he would win that his campaign consisted largely of touring the countryside to thank the electorate in advance for their superior wisdom in voting for him. His advantages over Mr. Truman appeared to be overwhelming. They were magnified by the creation of two new parties, the left-wing Progressive Party headed by the hapless Henry Wallace and the Dixiecrat movement, or States' Rights Party, led by the then governor of South Carolina, Strom Thurmond. Both of these groups were calculated to draw votes away from the legitimate Democratic Party nominee, Mr. Truman.

As it turned out, the experts were fooled again. The Wallace group, endorsed by Communist Party-liners and their disgruntled left-wing associates, absolved Mr. Truman of any suspicion of radicalism on the left and brought to his banners the old isolationists who were not particularly fond of FDR and the conservative big-city vote that might have drifted away if it had not been goaded to stay by the Wallace presence. The Dixiecrats convinced the Negroes that Mr. Truman was all right on civil rights.

But this is the analytical wisdom of hindsight at work. At the time, there was scarcely a politician, pundit, gambling man, or crystal ball gazer who would have wagered on Mr. Truman, however long the odds. The pollsters suffered a crushing reverse, and were not soon to recover.

In 1952, on the Republican side, Ohio's Sen. Robert A. Taft seemed to be moving as a kind of inexorable force toward the nomination. He spoke what many sympathizers called pure Republicanism. He was a highly intelligent, no-nonsense man who may have lacked humor and the dazzling personality demanded by that new dimension in American political calculations, television. But Senator Taft compensated for his defects with a flinty integrity and broad faith in his party's principles.

He became a rallying point for the rural conservative, the party wheelhorses who manned the county courthouse and the city hall, and those who believed that the fate of mankind rested not with Churchill or de Gaulle but with Chiang Kai-shek (these people came to be called Asia Firsters). He seemed to be in full control of the party's machinery, a tremendous advantage. Moreover, the man his moderate-to-liberal opponents in the party wanted to put forward, Gen. Dwight D. Eisenhower, didn't come home from his post as Supreme Commander of NATO forces in Europe until June, 1952. The convention was scheduled for July.

The outcome of that contest is all too familiar, and demonstrated once again how variable and unpredictable national politics can be.

• • •

On the Democratic side in 1952, one man approached the convention determined to prove that he was the peoples' choice, not only worthy of the nomination but, because of his efforts, deserving of it. He was Sen. Estes Kefauver, of Tennessee. Senator Kefauver, who gained national fame as chairman of the Senate Crime Committee which brought the nation's hoodlums to dock under the merciless TV lights, had won almost all the state presidential primaries.

The opposition to him had been weak or nonexistent, but what seemed to matter was that he had the delegate commitment.

Senator Kefauver may have been the choice of ordinary folks, but not of the party bosses nor of retiring President Harry Truman. His long months of primary campaigning were doomed at Chicago, for the bosses had settled on the little-known governor of Illinois, Adlai E. Stevenson, as their candidate.

• • •

The sum of all this is that nothing can be taken for granted in politics. And one man whose experience has taught him the iron truth of this political law is, according to his closest associates, President Lyndon B. Johnson. In 1941, running for the Senate seat vacated by the death of Morris Shepard, Mr. Johnson thought he had won. For five days from the Saturday election, he had contemplated a future as U. S. Senator from Texas. But he was painfully disappointed when the election judges in East Texas began to report gains for Gov. W. Lee (Pass the Biscuits, Pappy) O'Daniel, who eventually came up the winner by about 1,200 votes. Charges of fraud did little to assuage Mr. Johnson's dejection.

Again in 1948, Mr. Johnson saw a lead over his chief rival shrink from a 6,000 margin to a mere 87 votes. He got to the Senate, with the sobriquet of "Landslide Lyndon," and the conviction that, whatever the pollsters or the politicos or anybody else might say in the future about his political prospects, he would always run hard and scared. He could lean on plenty of history to support his attitude.

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TRENDS: THE STATE OF THE NATION

Loss of spiritual values weakens U.S. politically

BY FELIX MORLEY

JUST 50 YEARS ago, in the early August days of 1914, gray-clad German legions were sweeping through neutral Belgium, all Europe was feverishly mobilizing and a cataclysm from which the dust has not yet settled was under way. Many still living can vividly recall the anxieties of the time. But none could then even begin to visualize what would emerge from this Pandora's box.

The rise of communism, the disintegration of every European empire, the centralization of political power in the United States—these are only the most obvious outward results of the war of 1914-18 and of its sequel 20 years later. Less immediately apparent social and moral changes have been of greater import for mankind.

Today few can say with assurance just why humanity stumbled so badly half a century ago. The contemporary Allied explanation—that it was all the fault of German militarism—was long since discarded as too simple and self-serving. It is now agreed that deeply complex causes led all the then-great European powers to the edge of the abyss. How the ground crumbled under this collective exercise of brinkmanship is seen as an almost incidental matter.

• • •

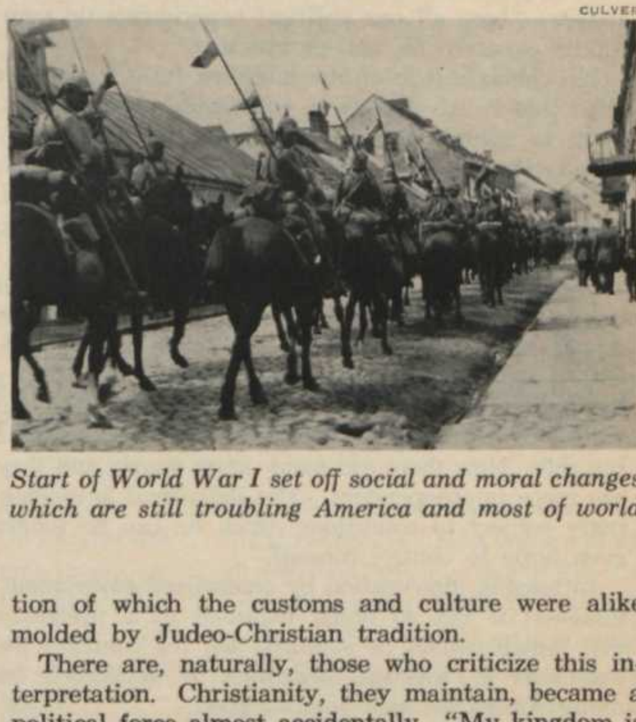
After half a century emotion fades and men try dispassionately to identify the forces that give ebb and flow to the tide of human events. Thus the real origins of the first World War are now being sought in happenings with little or no relationship to the specific acts of statesmen or military leaders.

What receives more and more attention is the fact that this war was incubated in the heart of what used to be called Christendom, among peoples with the longest history of organized Christian faith. Yet unlike earlier conflicts on the same terrain it was in no sense a religious war, with adherents of one church seeking to dominate others deemed invidious or heretical.

On the contrary, the armies of 1914 were composed of Catholics, Protestants and Jews in roughly equal numbers on both sides. Equally acclaimed, or disregarded, on both sides were the teachings of the Hebrew prophets and of Christ Himself. Disdain of religious precepts, it is noted, became even more pronounced in the second war, with anti-Semitic Germany and atheistic Russia operating first as allies and then as enemies.

The result, as seen by historians with a world perspective, has been a pronounced weakening in the fiber of religious faith. Individuals may be immune to this deterioration but society as a whole is not. And this is a very serious matter for a civilization of which the customs and culture were alike molded by Judeo-Christian tradition.

CULVER



Start of World War I set off social and moral changes which are still troubling America and most of world

There are, naturally, those who criticize this interpretation. Christianity, they maintain, became a political force almost accidentally. "My kingdom is not of this world." The "render unto Caesar" passage further suggests that the duties of citizenship have no religious implications.

It cannot be denied, however, that throughout the west Christianity has been a force of profound political significance. It is regarded as a primary factor in the final dissolution of the Roman

Empire. Without its unifying force, in the Middle Ages, the entire Mediterranean basin would probably have succumbed to Mohammedanism. The conflict between Cross and Crescent was then clear-cut, which is more than can be said for western opposition to the hammer and sickle today.

• • •

Christianity took political leadership under the aegis of the Church of Rome, and kept it until the Reformation strengthened nationalism at the expense of the Pope's territorial power. Nevertheless, religious influences continued to shape political organization.

This is seen most clearly in our own country, colonized after the Reformation and primarily by Protestants. Church and State had been completely separated when that brilliant French observer, Alexis de Tocqueville, wrote "Democracy in America." But he concludes there that, for Americans, "religion is the first of their political institutions."

The reason for this, de Tocqueville explains, is not found in the Constitution nor in any secular laws. It comes from certain inbred convictions, all of Judeo-Christian origin, on which our political institutions are founded and by which they are maintained. Among these the most important is that emphasized by James Madison when he wrote that we "base all our political experiments on mankind's capacity for self-government."

No characteristic of our inherited faith is stronger than this belief that men, with few exceptions, can learn to control their unruly instincts and thereby reduce the need for police surveillance. And it is no mere coincidence that, as Christianity spread, this reasoned opposition to political dictation also grew stronger.

Faith in mankind's capacity for self-government is obviously weaker in the United States today than it was when the guns of August spoke out in 1914. But it is less certain that the change is primarily attributable to the protracted blasting of spiritual values by those guns. Other factors have played a big role. Now there are many more people and they are more interdependent. The individual is increasingly subject to conditions which he can no longer even hope to control himself.

Increasing intervention by centralized government, however, is not so much regarded as a necessary evil, which cannot be avoided. On the contrary the extension of socialist principles is acclaimed by many Americans as a positive good.

During the emergency of war, local and private concerns must necessarily be subordinated to the decisions of centralized government, shortsighted and mistaken though these so often prove to be. Unfortunately, the net result of two world wars has been to eliminate peace, establishing cold war as the seemingly permanent condition of modern civilization. It is customary to give all the blame for this to communism, just as 50 years ago it was customary to pin all the responsibility on Germany. But if this easy explanation suffices it is certainly curious that we so readily accept a steady proliferation of centralized controls at home. For this procedure, coupled with the elimination of religious influence and the deification of the State, is precisely what communism advocates and seeks to achieve.

Future historians, one fears, may find this development of State-worship, with its necessary relegation of old-time religion to a secondary place, the dominant characteristic of our era, in what we like to call the free world, as well as under communism. Of course, the trend in this direction was setting in before 1914. Otherwise the essentially civil war in Christendom would scarcely have been possible. What we must now ask, half a century later, is whether a trend so strengthened in this period can be stopped.

• • •

Even though they have no answer, this is a question that may most properly be posed by those who can remember this country as it was before 1914, for they are the most conscious that something of great value has passed out of the American scene.

This is no mere nostalgia. Everyone would agree that life was then far less comfortable; pleasures much more restricted; work generally more physically exacting; and leisure more limited.

On the other hand, streets and roads were far safer. There were, in proportion, fewer broken homes, less juvenile delinquency and far less racial bitterness. Americans did not live nearly so well. But they lived more amicably, less fearfully and without a constant sense of strain. The loss of spiritual values cannot be measured statistically. But it is as apparent as the gain in wealth, conveniences and physical power. Standards, which are what made this country really important, have been jettisoned in favor of prestige symbols, which contribute only to self-importance.

It is most unlikely that the age of faith, in anything like its original simplicity, will ever be restored. Our scientific advance has been too rapid, our knowledge of the universe is now too extensive, to encourage the somewhat naïve reverence of bygone days.

This does not mean, however, that there is no such thing as cosmic purpose, that there are no longer any absolute values, that prayer has no meaning and that right and wrong are mere social conventions which we may manipulate at will. That positivist path slopes swiftly downwards towards a moral deterioration far worse than anything as yet experienced.

The increasing reliance on government should not conceal the fact that it can do nothing to restore spiritual values. Even a war on poverty, which sounds like a holy war, must be promoted in purely material terms. An inner poverty, more pronounced in Washington than in Appalachia, is our most deadly enemy today. And that form of poverty no political platform can promise to eliminate.

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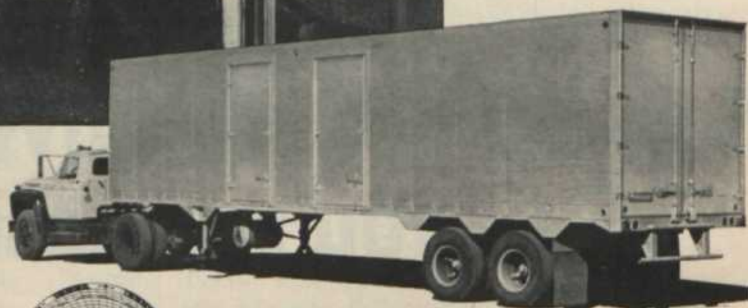

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Top lawmakers tell spending outlook

CITIZENS TODAY are wondering if the federal government will stray from the historic new course set early this year, which aimed to generate economic growth by leaving more money in the hands of individuals and businesses.

Election-year promises of new federal programs are heard in the land; expensive government remedies for economic ills are proposed.

Will federal spending really be held down, as President Johnson has projected? Will future tax cuts be added to this year's monumental reduction?

What will be our direction next year or five years from now?

In search of answers, NATION'S BUSINESS editors talked at length with the two key decision-makers who probably will have the most to say about our fiscal future. They are Chairman Wilbur D. Mills of the House Ways and Means Committee, which writes tax law, and Chairman George H. Mahon of the House Appropriations Committee, which provides the money.

On the following pages you get their candid predictions, in their own words, of where taxes and spending are headed.

Top lawmakers

Wilbur Mills talks on taxes

Arkansas Democrat who will have most to say about federal levies reveals his ideas about excises, rate cuts and option plans

Mr. Mills, what is the most significant accomplishment of the new 1964 tax law?

The most significant accomplishment was releasing the private sector of our economy from the higher rates of taxation. This will permit the private sector to make a greater contribution than it otherwise could make in economic growth in the United States.

If the private sector is not released to do the maximum it can do, then there are those who would have us spend more federal funds in order to accomplish those results.

I tried to make it quite clear in presenting the bill to the membership of the House that in this instance I thought we should take the more conservative approach, looking to the private sector of the economy, rather than going the route of increased government spending.

In any future tax cut would you want again to have the law state clearly that tax reduction is being chosen over federal spending?

Not only should we commit ourselves to such a holding of the line on federal spending, but before I would be willing to undertake another such tax reduction I would want to know that the line had been held with respect to the tax cut we have recently enacted.

In other words you would hope for a demonstration of this economy policy in the next few years?

It is absolutely necessary that we keep a tight rein on spending. Otherwise, I doubt that the American people would continue to support our tax reduction efforts.

If we are successful in getting the results from the present tax cut that we anticipated, and we do succeed in preventing growth in federal spending—either hold the level proportionately where we started or reach possibly a lower level—there would be no question the American people would feel that utilizing the private sector again, to a greater extent, would be the desirable approach to take.

Would you directly oppose any new tax reduction if, in the next few years, there is not economy in government spending?

Actually, if we hold spending in fiscal year 1965 under fiscal year '64, as the budget suggests, it would be about the fourth time since 1948 that we've had one fiscal year following another with costs of the government at the same level or below the previous level. It isn't something that has been done as common practice in fiscal policy within recent years.

What I am suggesting doesn't mean that we couldn't have a new program. But if we have a new program some older program has to give to the same extent. We just can't place a new program on top of existing programs. That isn't holding the line.

By holding the line on government spending I mean that we will not have a spending rise at the same time that revenues rise from additional economic activity generated as *(continued on page 78)*

Top lawmakers

George Mahon talks on spending

Texas Democrat who is new chairman of Appropriations Committee gives preview of future outlays and ways to reduce them

Mr. Mahon, what do you foresee as the direction for future federal expenditures?

I think spending trends for quite a long time in the future will remain high. There may be some reduction in defense and space, but it is not going to be sharp. We are going to continue with a relatively high rate of spending over-all.

There is much talk about disarmament. We all are in favor of greatly reduced tensions and reduced military spending if such is feasible. But such is not now feasible. We have to keep up our guard. The world is in ferment.

You look at Latin America, Asia, India, South Vietnam, the Congo, Cyprus. It would be very unrealistic to estimate that within three or four or five years these conditions are going to be drastically changed and we can make sharp reductions in defense spending. I just don't think we are going to be able to do it. To make sharp defense reductions would be misunderstood at home and abroad. We are having contests between the Free World and totalitarianism in many areas. When we keep up our guard, and are sufficiently strong militarily, if there is a confrontation between the East and West on a big issue, the chances of an over-all war are not so great. But if we let down our guard then some of these contests could much more likely escalate into an all-out war between the communists and the western allies.

Hasn't the government chosen tax relief over higher spending as the way to get more economic growth and prosperity?

Yes, I think this is the right direction.

We ought to rely more on the private sector to stimulate growth and development, and I believe the recent tax reduction will tend to prevent what might otherwise have been a rapid acceleration of spending. I hope it will start somewhat of a downward or leveling off trend. But the greatest hope is that we can at least prevent spiraling federal spending. The attitude of the President on spending has dramatized it. Turning off lights in the White House is insignificant except as it dramatizes the idea of economy. It has caught on with the country to a considerable extent, and I applaud this attitude on the part of the President.

Other parts of the government have joined in trying to keep the administrative budget for fiscal year 1965, for example, under $100 billion. This is all very good, but it is going to be very difficult to hold down spending, especially in view of the apathy of the people generally.

Why do you think there is apathy?

Well, the President in his budget message and in some of his pronouncements early in the year somewhat set the minds of the people at rest. They felt that they had some assurance that the President was going to undertake to follow an economy line, hold the administrative budget under $100 billion. We must agree that the people generally don't lie awake at night thinking about economy. They seldom do. They lie awake nights thinking about what they would like to acquire, increased opportunities, a rise in their standard of living, education for their children, and the like. I *(continued on page 56)*

YOICHI OKAMOTO

How customers make decisions

Research shows how businessmen can predict and fill consumer wants

BUSINESS is in a better position than ever before to predict and satisfy consumer wants—even as these become more diverse and less obvious.

Marketing research techniques have developed rapidly, and basic research into consumer behavior is beginning to promise new and valuable information.

It will take all of this improved know-how to keep up with the changing consumer. A glance at the current score card shows: New or greatly modified products make up the bulk of consumer purchases, yet the vast majority of new consumer products—about 80 per cent—fail.

Standard techniques now make it possible to determine whether a new product is a success or not much more rapidly than ever before. Often it is possible to locate the reason for the failure of a product that seems destined for success—and to prescribe some minor change in the product or its promotion with spectacular results.

Possibilities of this sort are remarkable enough to make one forget at times that television was not invented or developed because of favorable market analysis. Such analyses have much to do with many of the characteristics of the modern receiver and the programs that continue on the air. But they have little to do with the basic innovation in electronics or programing that were undertaken largely on faith.

The level of consumer response that will ensure continued economic growth will depend in large measure on the sorts of innovation whose success cannot be predicted reliably through marketing research or motivational research techniques.

About all such techniques will be able to offer for a long while is the possibility of reducing the risk involved in innovation.

But risk will remain, and economic health requires that businesses continue to seek out new areas of risk systematically—even avidly.

Theory of consumer behavior

Studies of consumer behavior are becoming continually more numerous and more sophisticated. More important, an increasing amount of time and effort is being devoted to basic research in consumer behavior. Some of this research throws useful light on immediate business problems; much of it merely fills in bits of a very complex picture.

Obviously the degree to which American industry can supply the consuming public with the quantity

Prof. W. T. Tucker, *the author of this article, is chairman of the Department of Marketing Administration at the University of Texas College of Business Administration.*

PHOTO BY JON SCHOONMAKER AT PEOPLES DRUG STORE

and variety of goods it wants is related to its understanding of consumer behavior. Perhaps too much effort in the past has been expended on discovering which of two packages was best and too little on trying to discover what makes a good package. Certainly both questions need answering at any point in time—but the first one can be answered rather quickly and simply, so it is usually the one that gets attention.

A workable theory of consumer behavior can only be built on questions like the second. What does a consumer want in a package? What are the factors that determine a person's choice of an automobile? What is the nature of brand loyalty? Who really influences the acceptance or rejection of a new fashion? It is becoming popular to ask such questions and to seek out the answers with the same kind of thoroughness and imagination and care exercised by the scientist in his laboratory.

A recent study by Al Birdwell, now with Tenneco Oil Co., throws a good deal of light on at least one factor that does relate to automobile purchases. For a number of years there has been much speculation on personality and the way it affects the individual's choice of automobiles. Until recently attempts to show that persons with different sorts of personalities bought different sorts of automobiles were generally unsuccessful or at best partially successful.

Now it seems clear that what is operating is not the consumer's personality in any of the usual senses but his perception of his personality. If a person sees himself as sophisticated, he wants a car that seems sophisticated to him. The complexity of the situation may seem disturbing, but it clears up some common misunderstandings. The manufacturer's objective is not to build an extroverted car for extroverts. The problem is to build a car that is perceived as extroverted by people who think themselves to be extroverts.

A purchase made by a particular couple studied by Dr. Birdwell, points up the difference from product image concepts. The husband, who regards himself as simple and unsophisticated, perceives the new car as simple and unsophisticated. The wife, who thinks herself something of a sophisticate, sees the automobile as highly sophisticated. The car they select has to be capable of seeming either sophisticated or not. Perhaps the success of the most popular automobiles is not because they have a clear, consistent image but have a reasonably broad number of possible images.

Studies of brand loyalty have uncovered a number of other interest-

(continued on page 65)

WHAT IT'S LIKE TO TRADE WITH RUSSIA

U. S. businessmen describe techniques, experiences in dealing with the Soviets

TRADE WITH RUSSIA is more wrapped up in politics—on both sides of the negotiating table—than trade with any other country.

Restrictions dictated by the policies of both nations make it more cumbersome and time consuming than the domestic or foreign trade to which you are accustomed. The broad gulf in ideological background and custom between the American businessman and the Soviet trade official adds to the difficulty.

This picture of what it's like to do business with the Russians is drawn from interviews by NATION'S BUSINESS with U. S. executives who have traded with the Soviet Union.

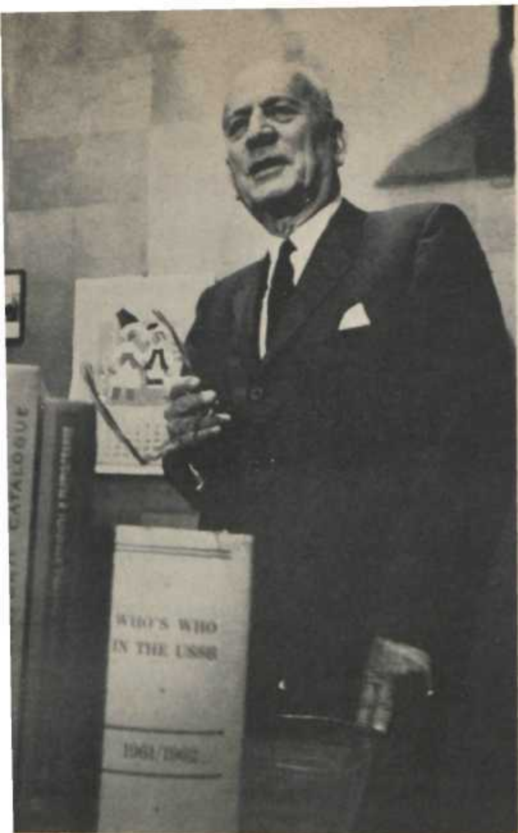
Such experience is rare in this country, for relatively few U. S. companies have exposed themselves to the vagaries of Soviet trade in recent years and a number of them handle such transactions through European subsidiaries.

On the U. S. side of the table, businessmen must comply with legislative restrictions which limit exports to communist countries. Export licenses must be obtained from the Department of Commerce, and the Export Control Act of 1949 prohibits licensing any export which would contribute to the military or economic potential of a communist country or prove detrimental to the national security or welfare of the United States. The Attorney General's interpretation of the Johnson Act of 1934 permits extension of normal commercial credits by U. S. firms to Russia and most communist bloc countries but prohibits long term credits. The periods of "normal commercial credits" vary with different commodities. Most-favored-nation tariff treatment is not accorded to Russia and most of the bloc, so that imports are subject to the high rates of the Tariff Act of 1930.

In the face of these obstacles and complications, how do you go about trying to sell your product to the Russians if you're interested in do-

VYTAS VALAITIS

To sell to the Russians you have to follow up in person—just as in the United States, says Julian Hoffman of Industrial Raw Materials Corp.



COVELLO—BLACK STAR

The Soviets are very interested in package deals, according to Sidney H. Scheuer of Intertex International

ing so? What sort of experience are you likely to have?

If your company is large and well known, or you are a leader in your particular field, you may already have received unsolicited inquiries about your product from the Soviets. If not, you will have to investigate to find out whether there is interest on the part of the Russians. As the head of one of the Soviet trading agencies said to a U. S. businessman on a recent selling trip to Moscow: "I like rich capitalists. I don't care for poor capitalists."

Businessmen who have engaged in Soviet trade agree that you have a good chance of making a sale if your product is one the Russians really want. Often they will approach you first, asking for a detailed bid by mail. If your product is not badly needed, however, your chances are very slender.

Can't sell the Russians

"You can't sell the Russians in our sense of the term," explains Leon Herman, specialist in Soviet affairs at the Library of Congress. "They are in the business of procuring, and their whole bureaucratic process is behind all their purchases and sales. Their exports and imports are part of their overall planning, though it's not as well organized as they'd have you believe. You can't completely plan foreign trade.

"The Soviet trade program starts with a list of urgently needed imports. Then they must find exports to balance their trade. It's not a matter of monetary profit or loss—they are buying things that are physically absent in their economy. Frequently they import to compensate for shortfalls where production or development of some essential item hasn't come up to what was planned. What they sell is not surplus production, but usually something diverted from domestic needs to earn foreign exchange with which to buy imports."

To find out whether an export license can be obtained for your product under existing restrictions, get in touch with the Commerce Department's Office of Export Control in Washington, D. C. In some cases, a direct yes or no can be obtained. In others not so clearcut under the regulations a definite answer will not be given until you have signed a sales contract with the Russians and filed an application for an export license. Getting

(continued on page 42)

"You sometimes have the momentary illusion that you're doing business with a private company," says Martin M. Pollak of National Patent Development Corp., shown on a recent trip to Moscow

UNIONS PUSH BIGGEST POLITICAL CAMPAIGN

AFL-CIO political director tells in this interview how organized labor is going all out to elect more allies

ROBERT PHILLIPS

JUST HOW STRONG is organized labor's political muscle?

Not as strong as it should be nor as strong as some people think it is, argues Al Barkan, director of the AFL-CIO's Committee on Political Education.

COPE is the principal political action unit of the American labor movement. This year alone, according to Mr. Barkan, it hopes to raise and spend a record $2 million in an effort to elect more candidates who favor the legislative ambitions of the unions.

In this interview he tells how his organization will use its strength in the remaining months of this year's vital congressional and presidential campaigns.

Mr. Barkan, 54, has headed the Committee on Political Education for slightly more than a year. He joined the staff in 1956. A native of New Jersey and graduate of the University of Chicago, he spent 17 years as a political specialist with the Textile Workers Union of America.

The interview with him follows:

How much effect do you think unions' political activity can have on the election outcome this year?

It all depends on whether it is a tight election or not. Almost any group in a tight election can say, "We made the difference." We believe that since our registration and get-out-the-vote effort was concentrated in 14 of the largest states in

1960, and President Kennedy carried all but California and Ohio, it is reasonable for us to assume that were it not for our efforts, he might not have won.

Are you concentrating pretty much on the same states now?

Yes, as far as the presidential race is concerned. But we have learned that it is not enough to have a friend in the White House. If you don't have enough friends on Capitol Hill your legislative program doesn't go very far.

So, we are going to be working in 50 states.

We will concentrate on defeating our enemies and electing more friends.

Our goal is to make up this deficiency.

How much will you raise from your membership in voluntary donations for direct financial support of candidates this year?

We hope to raise $2 million, half of it to come to national COPE and half to remain in the states.

How much have you raised in the past?

In voluntary dollars, in election years, we have been raising about $700,000 to $800,000. This is for national COPE.

This year will set a record.

We have a quota of 50 cents from 25 per cent of our membership. In other words, we ask each international union, as a goal, to raise at least a dollar from 25 per cent of its members, of which they send us 50 cents. The remaining 50 cents we recommend be given to the state COPE where the money is raised. This is done in some cases. In some cases the international union uses the 50 cents to make its own contributions to favored candidates.

How do you determine whether a member of Congress is a friend?

If an incumbent votes with us most of the time on major issues we consider that as being friendly. We get out voting records covering about 10 key votes, and generally we expect a friend to vote with us on most of them. I emphasize, though, that the decision to support or oppose a congressional candidate is not made here in Washington but by organizations in the states and congressional districts.

What are the key issues?

Medicare, civil rights, minimum wage, poverty, unemployment.

How many copies of voting records will you distribute?

About 15 million.

How many Senate and congressional races would you call marginal—those that could go either way?

We figure about 90 to 100 such races in the House and I would guess about seven or eight in the Senate.

How do you assess the impact of conservative political groups in recent years?

They've had their successes.

Do you see evidence of increased political activity by businessmen?

I'm one who feels that business activity in politics is not new. One of the big propaganda successes of American business has been the claim that they are recent newcomers to the political arena. My contention is that they have been in politics up to their ears, in both parties, for a long time.

I think businessmen are becoming much more effective. The thing that upsets me is the success business has had in giving the impression that it is the labor movement that is so all-powerful that it needs to be curbed politically.

I only wish we were half as

(continued on page 82)

WHERE UNIONS WILL WORK HARDEST

Labor's political machine will concentrate its efforts on races which are expected to be close, mostly those in the marginal category where the incumbent was last elected with less than 55 per cent of the vote.

In the Senate, 15 seats being contested this fall are in this category.

The unions will work hard to save the seats of eight senators, all Democrats:

Burdick of North Dakota	**McGee of Wyoming**
Edmondson of Oklahoma[1]	**Moss of Utah**
Hart of Michigan	**Williams of New Jersey**
McCarthy of Minnesota	**Young of Ohio**

They will try to defeat the other seven, all Republicans, whose voting records are not considered acceptable:

Beall of Maryland	**Mechem of New Mexico**
Fong of Hawaii	**Prouty of Vermont**
Keating of New York	**Scott of Pennsylvania**
Williams of Delaware	

In the House are 81 marginal districts, 44 represented by Democrats and 37 by Republicans. Forty-one of the incumbents, including two Republicans, have favorable voting records by labor union standards.

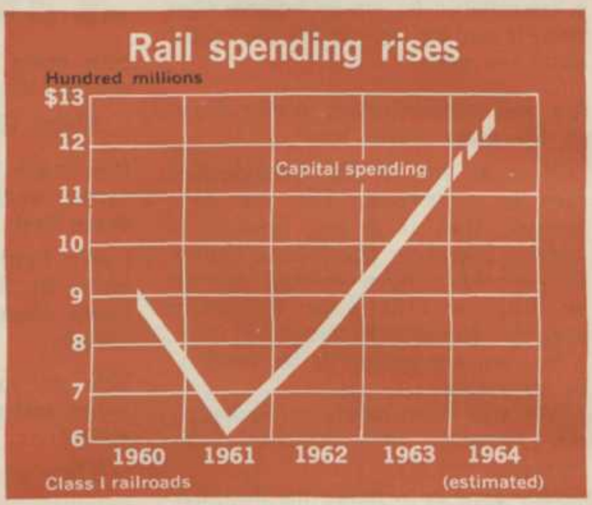
[1] Senator Edmondson, appointed last year, lost the Democratic nomination to State Senator Fred Harris, who will have union support for election.

A LOOK AHEAD

More stores computerize
(Marketing)

How rail spending rises
(Transportation)

When defense orders slump
(Labor)



AGRICULTURE

Major farm legislation awaits the next Congress.

Lawmakers will face needed action on such expiring controversial measures as these:

Feed grain program, cotton subsidies for domestic users, International Wheat Agreement, parts of wheat price schemes enacted this year, some tobacco provisions.

Wool and sugar programs are scheduled to die in 1966. Domestic beet growers contest with foreigners for larger sugar quotas.

Dairy, soybean and potato proposals also may come up during year.

Result could be an over-all farm bill which reshapes federal price-support program.

Interest groups mobilize. American Farm Bureau Federation calls 1965 a year of decision. Rival National Farmers Union officials see farm policy as a pocketbook issue of this election.

CONSTRUCTION

Working for better judgments by mortgage loan officers, United States Savings & Loan League begins publishing a construction lending guide for members. It points up value of good design, land usage among other qualities.

"The guide won't prevent lenders from lending on junk, but it will give them a way of knowing what is junk," says Norman Strunk, executive vice president of the association.

Lumbermen push wider use of wood in homes by seeking out cost-cutting. National Retail Lumber Manufacturers Association urges government endorsement of new lumber size standards which it estimates can cut homebuilding costs up to $100 million a year.

University of Michigan researchers experiment with foam plastics as new home-building material for underdeveloped countries. They build a foam dome, structures of plastic sprayed on a skin stretched over lattice, foam sandwiched between paper.

CREDIT & FINANCE

Growing complexity, greater competitiveness force more financial institutions to provide special training, tests.

"No longer can one rest upon skills previously acquired to keep pace with the highly competitive environment in which he is operating," says Rollin O. Dunsdon, coordinator of newly launched summer course for members of National Association of Supervisors of State Banks at University of Illinois.

State examiners supervise growing number of state chartered banks, which now top 9,000.

Longer established School of Consumer Banking opens 1964 session early this month at University of Virginia. Students include four vice presidents.

More firms insist their financial analysts pass Chartered Financial Analyst exams. U. of Virginia faculty men who administer this nationwide program figure nearly 1,900 will take next year's tests, about same number as this year. Registration closes this October 1. By passing tests, analyst demonstrates his basic ability and experience in studying, recommending securities for investment by individuals and institutions.

FOREIGN TRADE

New trade fairs, industrial exhibits will help companies crack foreign markets next year.

The list of fairs runs into thousands. But here's a sampling:

International Engineering exhibition in London next April will show factory equipment. U. S. Commerce Department is surveying British market for information on lines Americans should push. U. S. companies will stress new machinery, automated equipment. Commerce Department will run seminars at show on how to get most out of U. S. products.

Two professional societies—American Society for Metals and American Society of Tool and Manufacturing Engineers—are organizing a Brussels show for June 9-16. Target: 200 U. S. exhibitors of

metalworking machinery, special metals, other equipment who'll try to sell on spot.

Commerce Department expects to decide about September 1 on five product lines to push at next year's Tokyo International show. Market surveys are under way.

Munich is pushing U. S. and Russia to sponsor displays at first World Transportation Fair in 1965.

LABOR

Studies you and your workers may be able to use in predicting impact of disarmament on business will flow from government next year.

One of first will be study of implications of defense cuts for electronics industry, due out next June. Battelle Memorial Institute is doing the research for Arms Control and Disarmament Agency. Problems, new opportunities for business, needed action will all get treatment. Agency considers following up report with industry seminar.

Disarmers blueprint a series of 12 studies of companies that converted from defense to civilian markets. Successes and failures. What they did. How workers fared.

Defense Department wants to know what's happening to Seattle workers laid off when it cancelled Boeing Company's Dyna-Soar space glider contract.

Pentagon seeks to develop early warning system for subcontractors who'll be affected by future changes in buying. Small Business Administration, Labor and Commerce Departments, other federal agencies make studies.

MARKETING

Retailers will make wider use of computers for major growth decisions by 1970, specialists predict.

Practically all big department stores now feed billing, accounting into computer. But number slides for stores that use electronic systems for more advanced decision-making, say specialists at Touche, Ross, Bailey & Smart, accounting firm which works with National Retail Merchants Association.

Next jobs for computers beyond accounting paper work: management of merchandise, quick information on exactly what goods are selling, delivery schedules, inventory control, when to mark down seasonal merchandise, credit decisions.

Goal for 1970 by stores leading in computer technology includes major decisions on opening new market areas, changes of display patterns within stores.

Some retailers disagree on computers' value, claim they cost more than they're worth.

NATURAL RESOURCES

Red rabble-rousing south of the Equator worries the copper industry. Chile, soon to be independent Northern Rhodesia are the trouble-spots.

Communists and leftist allies in both big copper-producing areas will agitate for more strikes and expropriation of mines, refineries owned by Americans, other foreign companies. That's the betting of well informed diplomats and copper executives.

Any production tie-up would injure industry, copper men believe, because copper demand runs high nowadays. Sir Ronald Prain, chairman of Rhodesian Selection Trust, big American-controlled producer in Africa, fears strikes could bring a price boost causing copper-users to switch to aluminum, plastics, other substitutes.

Chilean troubles could follow September 4 presidential elections. Two favorites endorse nationalization.

Independence for Northern Rhodesia October 24 is key date in that British colony. Communists will try to pressure middle-road government into attacks on copper companies. Moscow propaganda already harps on pay scales for African workers. Red-led international labor group agitates among miners.

TAXATION

State taxes come under pressure but continue to creep up.

State legislatures raise rates on existing taxes. Mississippi puts nine cents a pack levy on cigarettes, highest in nation. Kansas, Georgia, Rhode Island also up taxes on smokes; Colorado charges a new three cents a pack tax. Income taxes go up in Georgia, Maryland.

Rhode Island and Mississippi alter their sales taxes. Maryland increases its gasoline tax.

In New Hampshire, voters will decide if legislature should have power to impose graduated taxes, such as income and inheritance levies.

Pressure on state taxes will continue to come from Special House Subcommittee on State Taxation of Interstate Commerce. It follows its trail-breaking study of state income taxes with similar reports on sales and use taxes. It plans recommendations for action clarifying overlapping taxes by end of year.

TRANSPORTATION

Railroads will provide additional evidence this year of how profits mean new business for many.

Major roads expect to spend $1.3 billion on capital improvements in 1964, up one quarter from last year. Reasons: Brightened profit prospects plus recent federal tax aids, say railroad men. Net income for Class I lines climbed 14 per cent to $651 million last year.

Biggest part of this year's spending—$600 million—will go for new freight cars. Example: new lightweight hopper for hauling large amounts of ore, coal, grain. New locomotives will cost some $150 million. Locomotive manufacturers push sales by taking old units as trade-ins.

New track-laying equipment and materials will cost some $300 million, Association of American Railroads estimates. Roads are installing tougher clickety-clack-less rails. Machines for replacing ties, ballast let two men do what 25 gandy-dancers used to.

Roads will lay out about $30 million for centralized traffic controls and other such equipment. But labor objects to radio phones in many cabs, cabooses for fear of losing jobs for flagmen, others.

TRADE WITH RUSSIA

continued from page 37

a decision is even more difficult where new technology is involved—there are stringent controls on disclosing unpublished technological data to the communist countries.

If your product is not on the prohibited list, you must then determine whether the Russians are interested in buying it. The simplest approach is to contact the Amtorg Trading Corp. in New York City, the Soviet agency which represents the foreign trading arm of the Russian government in this country.

All of the Soviet Union's imports and exports are handled by the more than 30 trading companies in the Ministry of Foreign Trade. These companies are largely divided according to the type of goods involved, but there is enough overlapping to cause confusion and delay from time to time. Often searching out the proper company to deal with can be a major task in itself for the foreign businessman unfamiliar with the system.

"It's like trying to get something done in a big city that's controlled by a political machine," comments one executive. "You first have to find out just who is the right person to see about it."

Amtorg may be able to advise you whether the Russians are interested in your product and, if so, put you in touch with the proper trading company.

Dealing with the Russians can be frustrating. One of their trading companies may write asking for a very detailed bid on a particular product. The Russians are well informed on new developments in U. S. industry and the product may be one just introduced. After spending considerable time on the complexities of the bid, you may never hear from them again. Letters asking whether they are interested will not be answered, not even to say no. You can only speculate on what prompted someone within the maze of Soviet bureaucracy to make the original request and on what they did with your offer. It may have been simple curiosity about a new U. S. product or a case in which the initial interest was overruled at a higher level.

If your correspondence blossoms, you may experience another aspect of the delays which seem inherent in the Soviet trade system. In the words of an American farm machinery manufacturer:

"They want us to supply full information and specifications on a product right now—or even yesterday. But when we have a question on some aspect of the proposal, it may take months to get an answer from Moscow."

To close a sale it is advantageous to go to Moscow, according to Julian Hoffman, vice president of Industrial Raw Materials Corp., one division of which represents a number of American industrial machinery manufacturers in overseas trade.

"You can't sell to the Russians unless you follow up in person—just as in the United States," he says. "In Moscow you can sit down with the proper official and often resolve a problem or at least get a definite answer. The ability to speak Russian fluently is valuable since fine nuances—which are most important—often become lost with the average interpreter."

In Moscow the American businessman will find himself dealing with a formidable array of experts, particularly if the proposed project is a large one. According to Karl F. Landegger, president of the Parsons & Whittemore-Lyddon Organization, which has sold the Russians four wood pulp mills and two newsprint mills:

"The Soviet technical personnel and lawyers are excellent. In complex negotiations, they may have a different expert for each section of the contract—one for delivery, another for delivery penalties, a third for price escalation, a fourth for performance guarantees, and so on.

"This is a very efficient system for them; these people are all civil servants. It wouldn't work in America, though. The overhead cost would be impossible."

The multiplicity of experts and the Soviet insistence on very detailed contracts can make negotiating an extremely tortuous process. Once an initial contract is agreed upon, however, it normally will be used as a model in subsequent dealings. Though you are not likely to have the same negotiator twice, those who come later share the usual bureaucratic reluctance to modify something which has already been proven acceptable to their superiors.

There is general agreement that, although the Soviets are formidable adversaries across the bargaining table, they are usually scrupulous in their dealings and will rigorously adhere to the letter and spirit of the contract. Tino Perutz, managing director of the Omni Division of C. Tennant, Sons & Co., a New York trading firm, gives this description:

"The Russians are capable, shrewd, experienced negotiators. They accumulate and digest competitive offers from all over the

(continued on page 46)

This is an **electronic** calculator

The totally new Friden 130 Electronic Calculator may be the world's most advanced desk calculator.

It has no moving parts. Just a ten-key keyboard. A cathode ray tube—like a small TV screen—displays the contents of four registers. (A fifth register stores constant factors.)

The 130 is the only calculator that gives you automatic transfer of intermediate answers. Each entry appears on the screen in front of you. To recall an entry, push a button. This saves time, and avoids the chance of making an incorrect re-entry. You can do complex problems and make minimum re-entries. Then, too, since 130 operates at electronic speed, you get most of your answers in milliseconds.

This whole performance is so silent, a battery of 130 Calculators at work in a hushed library reading room would hardly raise an eyebrow.

Chances are, you'll learn to use the 130 in minutes. We offer sales and service throughout the world. Call for a demonstration soon. Or write Friden, Inc., San Leandro, Calif.

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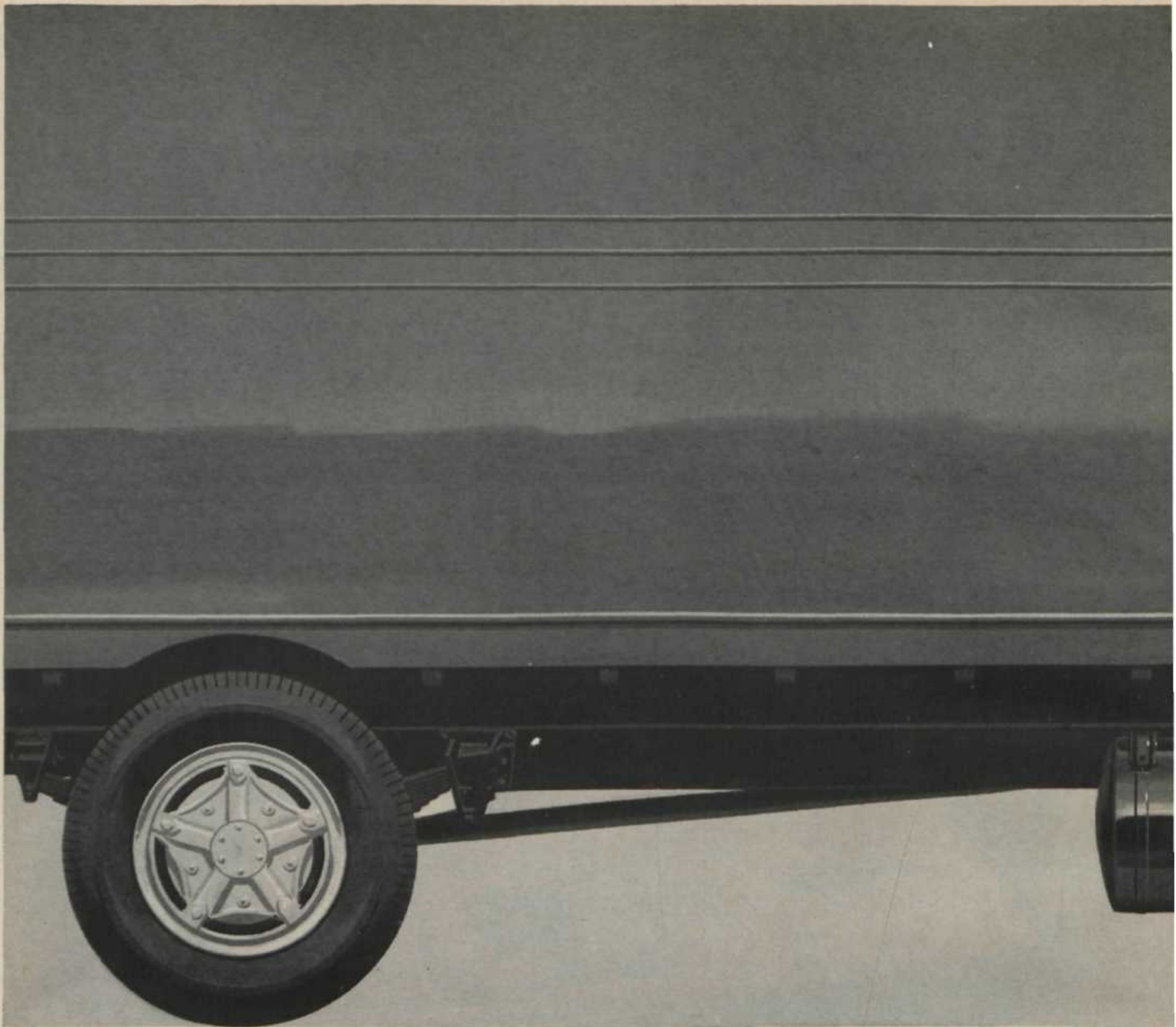


THIS END DELIVERS A MORE PROFITABLE PAYLOAD...

Do you operate trucks in the 2- to 3-ton range? There's an excellent opportunity for GMC's Toro-Flow diesel engine to put more profit into your payloads. Long hauls. Short hauls. Lots of idling. Stop-and-go deliveries. It makes no difference. GMC's new Toro-Flow diesel can cut trucking costs.

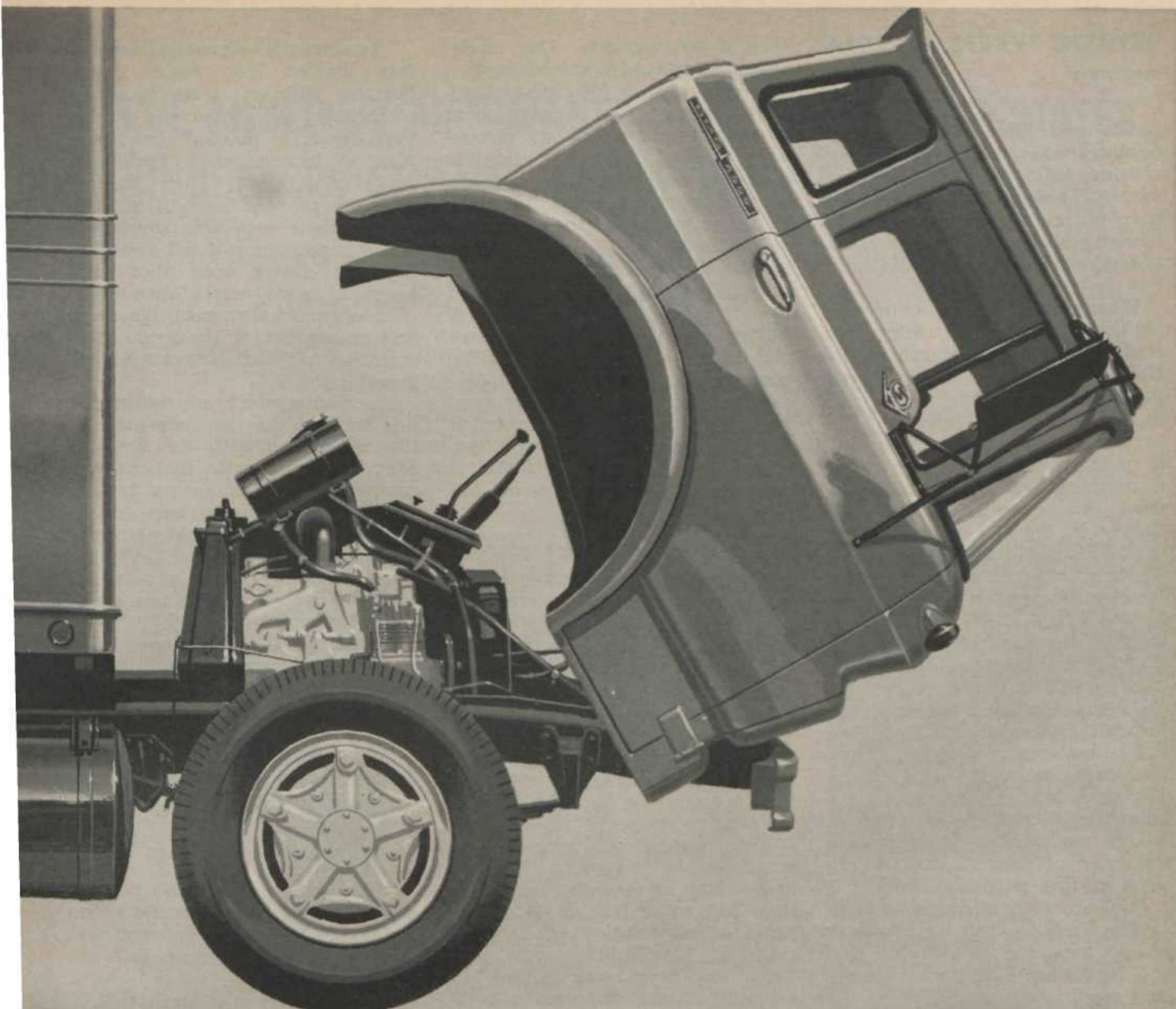
With GMC's Toro-Flow, the power is right, the price is right for both the low- and the high-mileage medium-tonnage truck operator. Now, you too, can enjoy every cost-cutting benefit of diesel economy. Here's what this means:

You will haul loads at less expense. You will get more miles per gallon. You will use less fuel while idling. Your maintenance costs will go down. Your truck's resale or trade-in value will go up. Toro-Flow is the most efficient truck diesel engine that has ever been built!

Toro-Flow has three ratings—130, 150 and 170 horsepower.

GMC offers the widest selection of medium-tonnage diesel-powered trucks in the industry. Full conventionals—both single and tandem-axle. Single-axle short conventional and steel tilt cab models, too.

Send for your free sixteen-page booklet. It's written in easy-to-read language that tells how Toro-Flow-powered trucks can reduce hauling costs. Your nearby GMC Truck dealer can give you some cost-cutting hints, too. See him today.



world, and their technicians and economic analysts provide the purchasing team with all facts and figures. The negotiators, who often have an impressive background of foreign studies and jobs with Soviet commercial companies abroad, know how to use these facts."

What seems to be a frequent shifting of personnel within the trading companies involves the U. S. businessman in a continual process of educating the Russians in the details of his product.

"The Soviets are very interested in package deals where they buy a complete installation of equipment or an entire plant," says Sidney H. Scheuer, a senior partner in the textile firm of Scheuer & Co. and chairman of a subsidiary, Intertex International, Inc., which has sold the USSR $50 million worth of textile plants.

"They will work up a theoretical requirement, but often their plan just isn't feasible. You must go through an educational process which involves a variety of professionals in their bureaucracy. This is a long procedure and the language barrier is a problem. You're paying in time and effort the price of their lack of knowledge in this particular field."

Another American executive says:

"Negotiations with the Russians are so long and so detailed that if it isn't a large contract it simply isn't worth the trouble."

All executives who have dealt with the Soviets agree that patience is a prime requisite. One, a dynamic salesman by nature, says:

"When I go to Moscow to negotiate a sale, I have to bring about a complete change in my personality. Instead of pushing ahead to close the deal as fast as possible, I force myself to relax and take things as and when they come."

Martin M. Pollak, vice president of the National Patent Development Corp., which has arranged the licensing of a number of Soviet products in this country and U. S. products in the USSR, concurs:

"The Russians have a word they're fond of using—*seichas*. It literally means 'right away' but, when they use it, I've found it can mean five minutes or five months."

Adopting more Western customs

The Soviets are gradually adopting more and more Western business customs. James A. Drain, president of the Joy Manufacturing Co., which has been selling mining equipment to Russia since the Czarist days, says:

"They appear to be thinking increasingly in capitalistic terms, such as cost. They're not retreating from communism, but they're picking up our customs."

The Soviets will now accept arrangements for royalty payments in licensing agreements, something they had refused to do in earlier years as a violation of Leninist doctrine, Mr. Pollak points out. They are now more willing to submit contract disputes to arbitration in neutral countries, rather than by Soviet agencies.

"You sometimes have the momentary illusion that you're doing business with a private company when they talk about the profits they expect to make or how they plan to increase their business," Mr. Pollak says. "Their trading company officials have titles such as president and vice president, and a negotiator will tell you that he must discuss your offer with his client or his board of directors."

American businessmen, however, find an absence of the social give and take to which they are accustomed.

Procedures which are routine in this country may produce difficulties in dealing with the Soviets. Mr. Scheuer recalls that in his company's first shipments to the USSR the machinery was crated with old newspapers used as packing. When communist officials found workers at the plant site reading U. S. newspapers, a complaint was quickly lodged.

American attempts at humor are likely to be interpreted literally by the Russians, with confusing results. One exception is cited, however, by a U. S. executive.

The managing director of a Scottish subsidiary was negotiating a contract in Moscow and insisted on inclusion of a clause covering war, acts of God and the like. The Soviet negotiator exploded:

"War, war, war! All you people ever talk about is war between Russia and the West. How can we have peace with so much talk of war?"

"I'm not concerned about that," the Scotsman replied. "What worries me is the possibility of another war between England and Scotland."

The Russian smiled and agreed to include the clause.

In broad perspective, though U. S. trade with the Soviet Union turned upward last year after the sharp drop of 1962, it still constitutes a very small part of our total overseas trade. U. S.-Soviet trade amounted to $40.5 million in 1963 as compared with $40 billion in total U. S. trade.

Interest in expanding our trade with the Russians has been growing in recent months in the Johnson Administration, in Congress and in the business community, although no significant action has been taken yet to loosen existing restrictions on exports.

Observers say that no action is likely to be taken until after the presidential election in November.

END

HOW IT FEELS

IMAGINE YOURSELF *deep in negotiations on an important sales contract. Across the bargaining table is a shrewd, tough-minded officer of a company which wants to buy your product, but insists on the lowest possible price and very detailed terms.*

A familiar scene? Not entirely. Hanging on the wall opposite you is a large portrait of Nikolai Lenin.

The man with whom you're hammering out an agreement is a Russian. His trading company is actually part of the Soviet government's Ministry of Foreign Trade, and you are sitting in a conference room in the Ministry's 32-story office building in Moscow.

The chief negotiator speaks fluent English, but some of the half dozen or more technical experts flanking him do not. As the bargaining proceeds you become increasingly aware that, in more ways than one, the Russians don't always speak your language.

"After a while you begin to feel like a character in a novel by Franz Kafka—exposed to influences which you sometimes sense but can never quite define," says one U. S. businessman who has traded for a number of years with the Soviet Union.

Opportunity

VALUE ADDED BY MANUFACTURE IN 4 SOUTHERN STATES INCREASES AT RATE ALMOST TWICE THAT OF U.S.

Diversification is Important Factor in Growth of Manufacturing in Alabama, Georgia, Florida and Mississippi

Value added by manufacture increased 126% in the 4-state area served by The Southern Company system in the period 1952-1962. This dramatic growth compares with a 65% gain in the same period for the entire United States, according to the latest figures compiled by the U.S. Department of Commerce.

In the same 10-year period, the number of employees engaged in manufacture in Alabama, Georgia, Florida and Mississippi rose 25% versus 5% for the U.S.

And during the 10-year period \$5,388,536,000 has been invested in new plants and equipment in the 4-state area.*

This growth in manufacturing is characterized by broad diversification. New industries ranging from paper products to rocket engines, from synthetic fibers to nuclear submarines benefit from the rich natural resources and plentiful labor available here.

Another factor contributing to the growth of industry in the 4-state area is the abundance of electric power. During the period 1953-1963, inclusive, The Southern Company and its affiliated companies have spent nearly one and one-half billion dollars for generating plants and transmission and distribution facilities. An additional \$600 million expansion program is planned for the period 1964-66.

These facts point to *opportunity* for *your* company in the rapidly expanding economy of the New South.

Significant and continuing growth in this four-state area is shown by these pertinent comparisons:

RATE OF GAIN 1953-1963	4-STATE AREA	UNITED STATES
Total Personal Income	73.0%	62.7%
Bank Deposits	96.2%	63.4%
Electric Power Generation	137.4%	106.5%

SOURCES: U.S. DEPT. OF COMMERCE, FEDERAL RESERVE SYSTEM, FEDERAL DEPOSIT INSURANCE CORPORATION AND EDISON ELECTRIC INSTITUTE.

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Gulf Power Company.......... Pensacola, Florida
Mississippi Power Company.......... Gulfport, Mississippi
Southern Electric Generating Co.... Birmingham, Alabama
Southern Services, Inc.......... Birmingham, Alabama

EXECUTIVES NEED

Modern managers deal with a vast array of people on all levels to get their work done

THE TODAY'S BUSINESS demands from its people a style of operating vastly different from the usual concepts of boss and subordinate.

A penetrating examination of today's corporation shows that almost anyone on the management level must be an ingenious negotiator to perform his job successfully. Decision-making has become more a process of brokerage than of collecting information and giving orders.

In many ways the view the outsider receives of the modern organization is like the proverbial iceberg. The 10 per cent that shows is what most persons take to be a good sample of the total.

What they see are the organization charts, the chains of command. In an earlier age these did mirror the whole. Most relationships consisted of giving and taking orders. In the military an undifferentiated mass of foot soldiers charged forward under the direction of their officers; in the workshops employees were kept busy under the watchful eye of a supervisor who made assignments, sought out laggards and kept everyone bustling.

Modern technology provides quite another story. The very nature of the jobs that have to be done creates a totally different pattern of human relations. These human relations have little to do with managers wanting to be more (or less) democratic or employees demanding more freedom. These new patterns of human relations are the inevitable product of increasing specialization and modern technology, the hallmarks of modern business.

It is well documented that modern technology and large organizational units are not only compatible with individual initiative, but they require and foster it because of the need for skillful negotiating.

Modern technology imposes a complex pattern of human relations on the employee, unlike the traditional concept of being a boss or a subordinate. Most jobs in modern business have numerous elements of interdependence with other jobs and the margin of error that an employee can be allowed has been reduced. Both of these factors, surprisingly, tend to increase the quantity of his interactions with other people and the diversity of human relationships which he must be able to start and maintain.

Each addition of a specialist or creation of another department tends to multiply the number of people who have to be consulted and who have some influence over the work that an employee or manager is doing.

Whom manager must deal with

In one organization which we analyzed recently a typical middle manager had to maintain relationships with 30 or 40 other managers or work groups in order to get his work done, quite aside from his direct superiors or subordinates. When we looked more closely we could roughly categorize this enormous number of lateral contacts into roughly 13 quite different types

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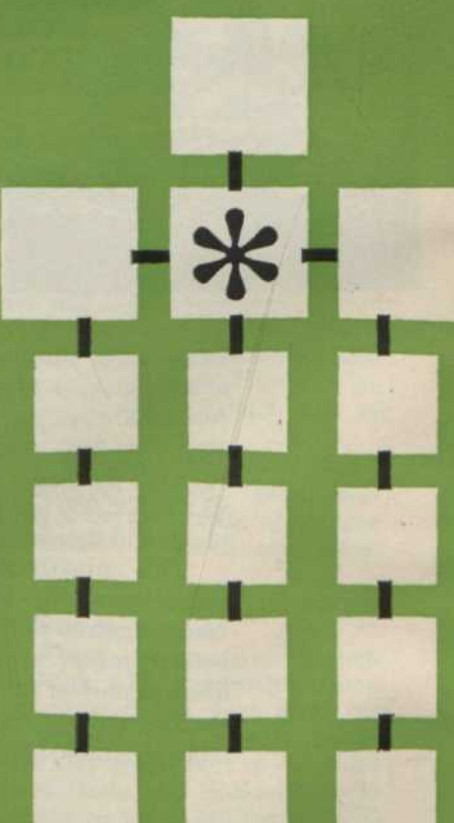
Leonard R. Sayles, the author, is professor of business administration, Graduate School of Business, Columbia University. He is author of a recent book, "Managerial Behavior."



Mere giving and taking of orders along chain of command is not enough

THIS SKILL

Executives today must get work done through scores of people and groups in and out of the company who are neither bosses nor subordinates

of relationship. These were not optional parts of the job but were necessary because of the extreme specialization of work that modern technology imposes. Here is the list:

Groups for whom he is doing work, who have in a sense contracted out some part of their activities to him.

Groups to whom he, in turn, contracts out work because they are more expert, or better equipped.

Groups from whom he gets parts, materials or services—some of whom may be within the formal boundaries of the organization.

Groups who assist him in making such acquisitions or who must prepare facilitating papers, such as purchasing or accounting departments.

Groups who control the access to equipment, space and other resources he must use in the course of his work.

Groups who can help him when he has problems with personnel, with financial or technical aspects of his work.

Groups who ask him for special help in areas where he has technical expertise.

Groups who are working at an earlier stage in the over-all work process, from whom he will receive ideas, materials, designs, or objects.

Groups to whom he will send what he has processed in the way of ideas, materials, design, or semi-completed parts.

Groups who are doing things in other parts of the organization that directly or indirectly impinge on his activities.

Groups that can help him predict changes in personnel, organization, finances, level of business activity.

Groups that can facilitate his contacts with, and help him comprehend the behavior of, bosses and customers.

Groups from whom he must secure approval for the work he is doing and for his methods.

Studies of actual managerial behavior confirm this view. The typical manager in the modern business organization has enormous interacting responsibilities. For example, in studies of an automobile plant and an electrical equipment manufacturer, the number of contacts per day averaged around 400 for a first-line manager. A significant number were outside the immediate work group.

The most successful managers were those who were able to initiate and maintain effective relationships with outsiders, nonsubordinates, nonsuperiors.

Corporate boundaries are fluid

In addition to these types of relationships, the modern organization has fluid boundaries. It must maintain a wealth of contacts with outside groups in the community, in government, trade unions, contractors, customers, consultants. Some of these don't stay outside either, and the manager finds himself having to deal with the subcontractor who is doing inside maintenance work and the computer specialist who is temporarily assigned by the vendor to work with him in improving data processing flows.

While the employee of an earlier day had only to learn how to live with authority, employees in today's business organizations have to learn to handle much more subtle differences in human relations. They must learn how to ask and give advice, how to deal with stages in the work flow that come before or after their stage and that influence their ability to get their job done but over whom they have no control. Many times they will be appraising the work of others (whom

SKILL

continued

they don't supervise) or will have to deal with specialized groups who are evaluating their technical, financial and managerial performance.

In all of these human relationships, who has authority over whom is a moot point. The balance of power, of status and influence tends to be ambiguous. These types of interaction therefore require enormously more personality abilities than did jobs under simpler kinds of technologies. Much more skill and time has to be given to negotiation-like behavior patterns, to interviewing, and a whole host of skills that are the opposite of the smothered individual, which critics of large corporations tend to fret about.

Modern technology even complicates the relationship of the boss to his direct subordinates. In the plant and even in the military, for example, technical experts often and successfully challenge the boss in day-to-day disputes over vital decisions.

To further complicate things, the relationships that the employe in contemporary business organizations must learn to handle tend to be in flux. Big business is dynamic; methods, job assignments, and structures are changing. So just when you think you have mastered the "who does what with whom" that you need to know to get your job done, relationships change.

Higher leadership skill needed

Modern business positions require much more human initiative, much more ability to use high levels of leadership skill than were ever called for under simpler technologies. Enormous persistence is required to deal with the large numbers with whom you must consult, coordinate, and negotiate if your job is to intermesh with the requirements of the total organization.

These are not jobs for the rote conformist; the energy and initiative levels are too high, and this is why there is a continuing shortage of capable managers in today's business world. The job requirements—rather than being simpler—have increased to the point where many employes seek less demanding positions and refuse new, more demanding assignments.

The actions of any manager or staff expert affect all groups around him and he must get them to make adjustments in their behavior before he can achieve his objectives. As one or another group makes its move, the manager must endeavor to make compensating adjustments. These, in their turn, affect still other groups. So the manager must go around the circuit again, getting new agreements, commitments and assurances from those he had committed to something else shortly before.

Thus decision-making itself many times is not a discretionary process; rather it is a continuous and intricate process of brokerage. As changes take place in the group, and in other groups, and even outside the organization, pressures are generated which call for responses. The responses are compromises and marginal adjustments reflecting the very different interests and points of view of all the parties to the decision.

The demand from subordinates for situations in which they can be dependent—not the supply of overbearing authority—is frequently the problem. While job enlargement appeals to some, for many it is a threat to the more idyllic assurance of untroubled working hours.

Why has the concept of an organization man had such wide and immediate appeal? Is it not the perfect self-rationalization for those individuals whose success has not measured up to their ambitions?

It is strange indeed that the contemporary manager is now being maligned for what is his greatest challenge and potential accomplishment. The maintenance of effective human relationships in large-scale organizations is one of the marvels of our age.

The skills of administration required to direct and control tens of thousands of people with differing backgrounds and interests, the product being coordinated effort directed toward predetermined objectives, pale the achievements of the business buccaneers of an earlier age. They dealt with a few, simple variables primarily in the market place. Their apparent courage and daring was more a product of the simplicity of their problem than extraordinary skills or brute native courage.

The diverse and complex responsibilities of the modern business offer a many times more exciting challenge to human abilities. **END**

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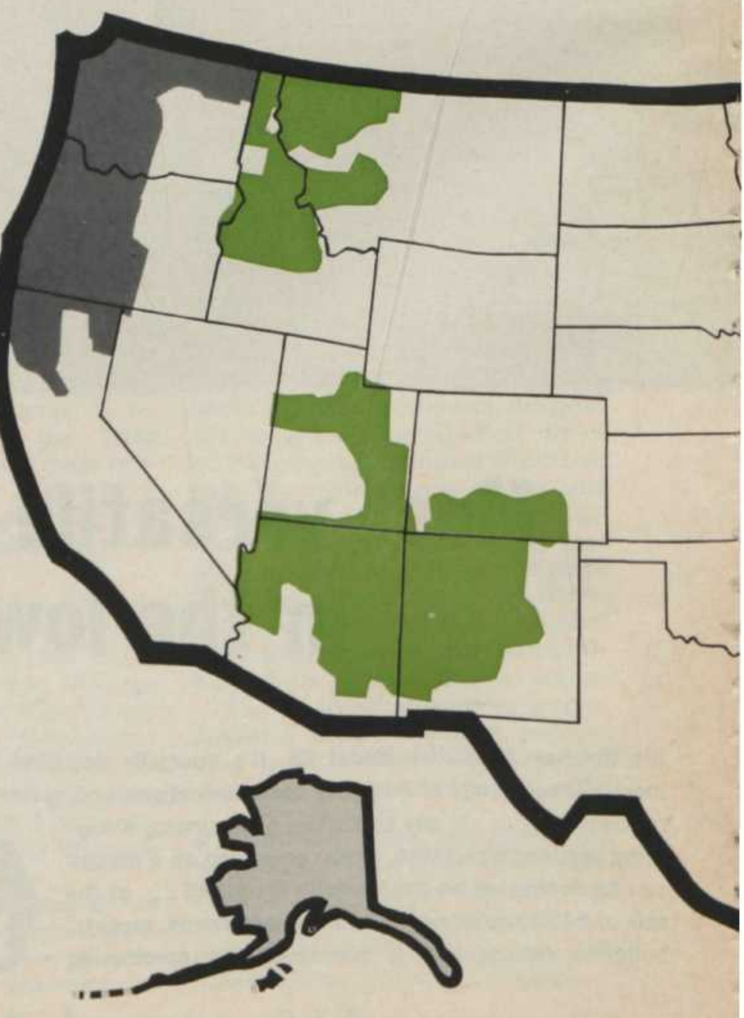
Regional subsidy programs offer lure to politicians



POSSIBILITY OF A SPECIAL federal program for the depressed Appalachian area has politicians from other sections of the country bidding for some of the same programs.

The government proposes to spend more than $4 billion of tax money collected throughout the country to give the 10-state Appalachian area such long-range advantages as highways and other public works, resource development, incentives for industry to locate there and stepped-up subsidies for other social and economic goals.

These would be provided on a regional basis, without regard to state lines, on the grounds that programs like the Area Redevelopment Act alone have proven unable to meet the needs in areas of worst economic distress.

Opponents argue that such programs discriminate in favor of limited areas, distort competition within industries, represent ill-concealed pork-barrel public works, threaten to redistribute unemployment, promote public power and fail to offer a lasting cure for economic distress.

"If this program passes and works, as we believe it will, it will set a successful pattern which then can be applied in other areas," Agriculture Secretary Orville L. Freeman says.

Other areas are not waiting for the results to be weighed. Already regional programs are being discussed for:

The upper portions of Michigan, Minnesota and Wisconsin;

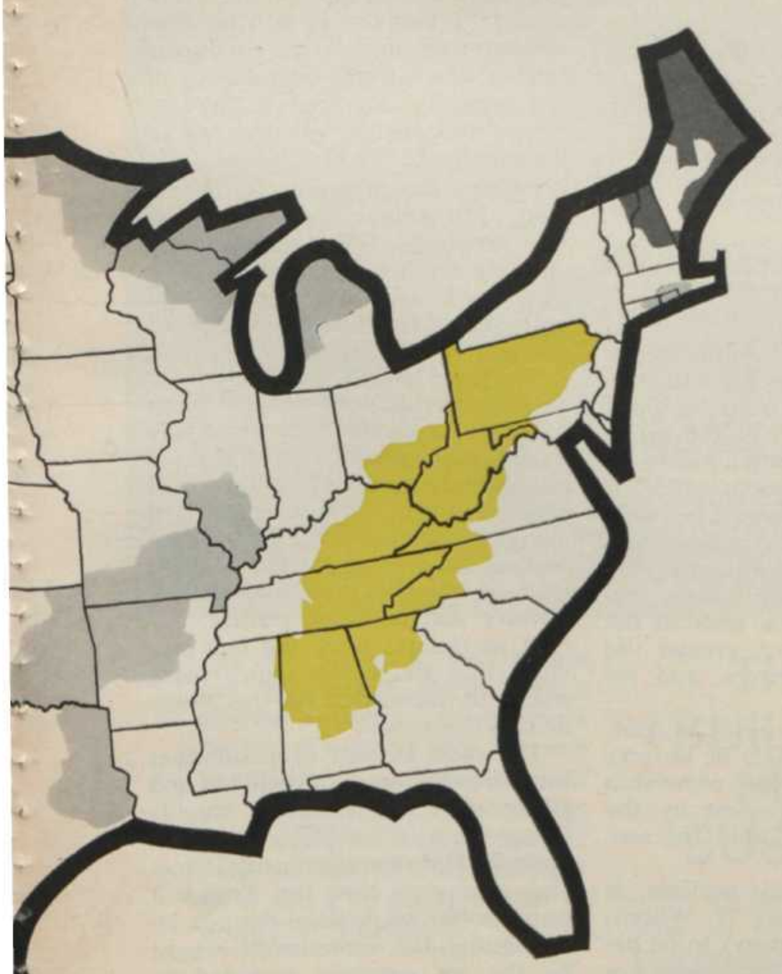
A section described as the Ozarks, including parts

Multistate regions listed as economically distressed and eligible for U. S. aid.

Areas where political leaders are seeking regional programs of Appalachian type.

Regions where communities have inquired about special aid or seem likely to do so.

Ten-state Appalachian area where presidential commission plans mass subsidy program.



of Missouri, Arkansas, Texas, Oklahoma and Illinois;

The entire state of Alaska;

A tiny region embracing parts of Massachusetts, Connecticut and Rhode Island.

In addition, the President's Appalachian Regional Commission has received inquiries about an Appalachia-type program from communities in upper Maine, New Hampshire, and Vermont. The staff of the Commission has been debating, too, whether the Pacific Northwest area, portions of Northern California, Oregon and Washington might be suitable for a regional program.

Beyond this, sections of Montana and Idaho, plus portions of the four corners states of Utah, Colorado, New Mexico and Arizona, other multistate areas listed as depressed, would present a tempting target for region-minded planners.

Nor is economic distress the sole basis for proposing a new project. Rep. Neil Staebler, a Michigan Democrat, is seeking appointment of a presidential commission to coordinate regional development of the entire area adjoining the Great Lakes—embracing parts of New York, Pennsylvania, Ohio, Michigan, Indiana, Illinois, Wisconsin and Minnesota.

Another ARA

If all these efforts are successful the pattern will be much the same as that of ARA. That agency—originally conceived to meet the problems of hardest-hit areas—has been vastly expanded in coverage to broaden its base of legislative support.

It is important to examine these efforts, since their economic and competitive results would be felt far beyond the areas concerned.

Most likely to follow passage of the Appalachia bill are efforts to launch a regional program for the iron-ore areas of upper Michigan, Wisconsin and Minnesota. Its sponsors include Senate Majority Whip Hubert H. Humphrey, Sen. Eugene J. McCarthy and Rep. John A. Blatnik, all of Minnesota; Wisconsin Sens. William Proxmire and Gaylord Nelson, and Michigan Sens. Philip A. Hart and Patrick V. McNamara, who is chairman of the Senate Public Works Committee.

Their proposal was urged on the late President Kennedy in Duluth during his conservation tour last year. The backers got as far as arranging a White House meeting with the President and his Cabinet. The meeting, set for December, was canceled by the assassination.

The sponsors have kept in touch with the White House through Lee C. White, assistant special counsel to President Johnson, however, and recently wrote the President seeking appointment of a presidential commission to launch a full-scale program for the three states.

They want Under Secretary of Commerce Franklin

D. Roosevelt, Jr., chairman of the President's Appalachian Regional Commission (known in Washington as PARC), also to head the Upper Great Lakes commission.

Already in hand is a 1963 Agriculture Department task force report ordered by Secretary Freeman. It proposes, among other things, greater public control of land, an increase in beef cattle and work camps for young adults engaged in training and conservation work.

While Appalachia serves as a legislative precedent for the effort, this doesn't mean that the Great Lakes states would wait to see how the Appalachian program works out, which Mr. Roosevelt figures would take at least two or three years.

"I don't think you can hold it back that long," he told NATION'S BUSINESS, adding this personal endorsement: "I would favor a regional program in which the federal government would participate." But he's not yet willing to extend that to all the other proposed projects.

States could well join efforts to solve common problems without federal assistance, Mr. Roosevelt continues, the standard for federal participation being a large enough area of such economic importance that economic stagnation within the area is a drag on the economy elsewhere.

In his view, this standard seems to apply to the Ozark area embracing parts of Missouri, Arkansas, Texas and Oklahoma, plus Southern Illinois. Sen. J. W. Fulbright of Arkansas expresses interest in including the Ozark areas of his state in such a program. Missouri Sen. Edward V. Long wrote the President:

"It is my thought that extension of your Appalachia program to comparable areas in this country is urgently needed."

In some Missouri counties, Sen. Long adds, high percentages of the population are receiving old age assistance and aid to dependent children, and the median income falls far below $2,000 a year.

Back-home reaction to the Senator's proposal was mixed. His office mail favored it. But some Ozark area mayors countered that real poverty in their communities had been exaggerated. A Branson, Mo., businessman, Peter Herschend, president of the White River Lakes Association, declared:

"The association, representing over 300 business people, has made strong objection to the remarks of Sen. Long. This area is economically sound with very bright prospects for continued growth. It is the feeling of the association that comment such as Sen. Long has made can only serve to drive people to seek other recreation areas for their vacations."

Another viewpoint

Rep. Durward G. Hall, whose district was covered by the proposal, says it's far from poverty-stricken, and that cities such as Springfield and Joplin have unemployment rates down around 3.6 per cent. Mr. Hall is a former head of his local and state chamber of commerce.

Even residents of outlying areas, says Democratic Rep. Paul C. Jones of Missouri, are comparatively well off despite low cash income, since they grow much of their own food. He says the Ozarks have little in common with Appalachia, where the population has failed to adjust to the decline in coal-mining.

You can use new research findings to forecast customers' wants in the future. A progress report begins on **page 34**

Testifying in favor of the Appalachia bill, Sen. Ernest Gruening of Alaska put in a strong pitch for his state. Many areas, he said, need new roads, improved air service, flood control, an expanded cattle industry, local timber processing, new uses for mineral deposits, low-cost power, greater use of recreational resources, and expanded business.

"These nine needs apply to Alaska or wherever pockets of poverty exist because of absentee ownership and/or inept management by the federal government," said the senator.

The lure of such projects is bright. Labor Secretary W. Willard Wirtz says that highways to be developed in Appalachia over five years alone would create 30,000 man-years of direct employment, plus 47,500 more in off-site employment. He also claims: "Other pnysical resource projects authorized by the bill will likewise generate many additional thousands of man-years of employment."

Even though job predictions on public works projects are often overestimated in advance—the General Accounting Office recently rapped ARA for inflating job figures on public works already completed—congressmen can take credit for getting federal money into their constituencies.

The public works aspect of Appalachia-type regional development programs was emphasized during closed-door discussion of the Appalachian plan when Republican members of the public works subcommittee in charge of the bill were asked if they would accept expansion of the Accelerated Public Works program as an alternative to Appalachia. They refused.

Other areas are concerned

The effect of subsidized development of lagging regions on other areas, industries and businesses is of concern to many areas not so benefited. Secretary Wirtz concedes: "I suppose it is true that whenever we improve the producing facility, the working competency of any group or any area, it does increase competition with the rest of the country."

Besides the proposals for Michigan, Minnesota and Wisconsin, the proposals being urged more strongly on Mr. Roosevelt involve the Ozark area and former mill areas of Massachusetts, Connecticut and Rhode Island.

The Staebler bill would authorize a commission to draft regional plans for the area involved, covering economic development, all forms of transportation, tourism, reduction of unemployment, improvement of navigation, power development, recreation, flood control, water supply, land reclamation and conservation, forestry and pollution control.

It carries no price tag but provides that the commission's plans would be forwarded by the President to Congress.

The most current proposal, that involving Minnesota, Michigan and Wisconsin, might have trouble fitting into President Johnson's budgets. But one prominent Democrat comments that the President would suffer no political damage by appointing the commission sought by the six senators, provided he laid dowr strict instructions to keep the cost of federal participation low. **END**

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SPENDING

continued from page 32

would say there is currently no strong expression or demand from the people for economy.

Now we did have a demand from the people to some extent last year, as you know. And several years ago there was a tremendous surge when President Eisenhower submitted his budget and Treasury Secretary Humphrey said if we didn't hold down spending we would have a depression that would curl your hair. Now this ignited the interest of the people and they thought about economy. They talked about economy. They became increasingly concerned with overspending, and there was an atmosphere generated that was very wholesome. I wish we could recapture that attitude and do more about it.

Along about that time Congress, in response to that atmosphere, made a sharp reduction in the budget.

Many have tried, but no one yet has been able to dramatize the issue of economy enough to create a sustained campaign for economy—I'm talking about a broadly based groundswell of sentiment among the people.

Do you think apathy is going to remove federal spending as an election issue in 1964?

The people generally tend to favor economy in areas other than their own. Projects in their own area seem very logical and appropriate to them. This is just the fact.

Fiscal responsibility is a much-used phrase. These are important words. But they have been used so frequently they to some extent have lost their punch. This is unfortunate. But I can't believe that discussion of economy in the forthcoming campaign will excite the interest of the people to the same extent as their interest will be excited over the discussion of foreign affairs, for example.

The fiscal situation will be an issue, and it will be one of the telling issues, but it won't be the top issue.

I hope it is an important issue. The greater and more intense the discussion is in regard to fiscal matters the better off we are. If we never think of economy, if we never think of spending, if we always think about something else, we don't really devote our best energies to the problem.

Do you believe that, as chairman of the Appropriations Committee, you have some obligation to keep people thinking about economy?

I believe it is part of my job, and in past years as the No. 2 man on the Committee I have given this matter considerable concern.

Now, with the frightful responsibility of working with the Committee and the Congress on what to do about the question of government spending, how to apportion the dollars to be appropriated, I think that the chairman and the members of the Committee and, in fact, all members of Congress have a great responsibility to lead the people and to stimulate interest and discussion.

I want to try to come up with ideas that will dramatize this problem and create a sustained interest in it.

We have considerable staff on the Committee. We have investigators that go out and uncover examples of waste, inefficiency in government.

We have the General Accounting Office, and it performs a service in dramatizing to some extent wasteful practices and that helps create interest in trying to come to grips with these matters.

Would you plan then to step up the activities of the General Accounting Office and committee investigators?

These activities might be expanded usefully. They are, of course, already substantial and far-ranging.

Of course, the best way to achieve economy, we must bear in mind, is to vote "no" on additional authorization of existing programs and on new spending programs. It is generally too late after the bills have been passed and the authorization created and the appropriations made to talk about reducing that spending or to talk about holding down the debt ceiling. You can't grind the mill with the water that has passed.

As incomes rise and the nation becomes more affluent, do you think there might be room for economies in welfare?

I wish we could achieve this. We would have a much happier and sturdier country if the necessity for welfare could be greatly reduced, and I am hoping that we will find a way to achieve this goal.

And as you know, the President and others have pointed out that the degree of affluence is much greater than it has ever been.

And while you can't eliminate poverty, we ought to do all we reasonably can do to enable the citizen to help himself and to be free from relief and subsidization by the government.

The government is spending billions to help those who don't have these high incomes. Is this the proper role of the government?

Well, before I answer that I should express my over-all philosophy with respect to spending. I have a rather homespun view on this whole question of government spending. I feel that except in time of war or truly deep emergency we ought to live within our income. We should live within our means, and should make a start in reducing the national debt.

At times of affluence such as the present we ought to prepare for more evil days in the field of spending, as I see it. That is my general philosophy.

Now, I am not opposed to spending all the money needed for defense and all other essential purposes, but we ought to live within our income insofar as possible.

As you know, we haven't had a balanced budget since 1960, and since 1930 we have had only seven. This is bad, in my judgment.

I look with considerable skepticism on some of these so-called poverty programs. I agree theoretically and as a practical matter if we can make taxpayers out of people who are not taxpayers, this would enrich the whole country. But there are, in my judgment, decided limits to what we ought to try to do.

Do you have any particular plan in mind to have a better look at all the appropriations at once?

Well, the single package appropriation bill sounded good. But as a practical matter it was a failure.

We have, from time to time, had early in the congressional session meetings of the full Committee on Appropriations with the Director of the Budget and the Secretary of the Treasury. That has to some extent been productive.

Somehow or other we need to generate policies that will create a greater over-all interest by all the 50 members of the Committee. We tend to be too compartmentalized. Maybe one member works in the area of defense, another in agriculture, another in foreign aid, and another in some other field. It is important that all members of the Committee have constantly before them the problem of

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over-all government programs and expenditures.

Would it help prevent expenditures without the traditional review of your committee—so-called backdoor spending?

Backdoor spending has been a source of controversy for quite some time.

Had it not been for the determined stand of the House Appropriations Committee and other members of Congress, especially certain ones who played key roles, backdoor spending would have blossomed forth to a greater extent than it has.

It seems to me that the people of the United States and the press should be able to sit at the door of the Appropriations Committee and know that any spending must first be approved here. We should keep a record of the appropriations and know what the government is spending. I think that would simplify our problem. We can't always do that now.

But the matter is not wholly out of hand, and we shall continue to resist backdoor spending.

What is your opinion of biennial budgets to give a little longer range picture of spending plans?

I haven't had an opportunity to explore the pros and cons. It would be worth thinking about.

Do you favor five-year spending projection, such as these now being done by some federal departments?

I am highly in favor of the basic idea. Too often in the past, in many fields of government, we have launched a program, relatively modest the first year or so, and then it blossomed into a multimillion dollar project far beyond what was at first generally thought or assumed. The argument is made: "Well, we are already into this project and we have to go ahead with it." Maybe we should. But I think it is highly desirable that we take a long-range view of spending programs in defense and otherwise before they are initiated.

This will promote better management and will enable the people in the Executive Branch and in the Legislative to make better decisions.

This is being done in the area of defense to a very considerable extent under Secretary McNamara. We need to extend the idea to all the branches of government.

The truth is that when we start a temporary program we soon find that it is extended from time to time, and a government agency once established is very difficult to exterminate.

Should the President have power to veto single items within appropriations bills Congress has passed?

It would be unwise for the President to have the item veto. The President can dramatize his position and his views. He has the nation's press and television more at his disposal than the 535 members of Congress.

We more or less mount our horses and ride off in all directions, and we are, as a result of that, somewhat at a disadvantage.

The Executive has increased its power. The Legislative Branch is fighting for its due place in the sun.

It is important to the people of our country that the Congress remain strong, and the item veto would be a step in the wrong direction.

It would be an abdication to some extent by Congress of its constitutional power.

What are some other future methods that you might consider as ways for better congressional control over spending?

We all recognize that changes in procedure will not of themselves bring effective expenditure control. They would have to be accompanied by an over-all desire and determination on the part of Congress to make the procedures work.

If there were an overriding interest in achieving the objective, the present system could be made to work much more effectively.

I am not at all saying that there is no possibility of better procedures and methods. There are possibilities and we ought to give them a lot of attention, and I hope to do so.

Should there be any kind of a ceiling for restricting the amount of spending? Should it be a particular percentage of the gross national product or an index related to population, for example?

These are interesting ideas. The sound barrier in aviation was quite a turning point. The American people to some extent have latched onto a 100-billion-dollar annual administrative budget as a significant landmark.

The way to keep from crossing it is to pattern your bills, your authorization and appropriations bills, on a basis of reduced or sufficiently restrained spending. After you have passed these bills and provided for the programs and launched them with appropriations, a ceiling comes too late.

Federal spending during the 1930's was never any more than 10 per cent or so of the gross national product. Over the last 15 years, with perhaps the exception of a couple of years during the Korean War, federal spending has been about 15 or 16 per cent of the gross national product. It has been fairly constant.

In other words, the gross national product and spending have been going up in about the same proportion. There is some hope to be taken from this fact. And the national debt, on a per capita basis, has from time to time edged downward.

The population angle is worthy of consideration. It certainly is a part of the explanation of why government spending has gone up so much. With more people you have more responsibilities, more public services to provide for.

Isn't a large part of spending not related to population?

Yes, much of spending is not related to population—defense, space, interest on the debt, and veterans, who are actually decreasing in number.

It is true, however, that much controversial expenditure is related to population such as in the depressed areas, the war on poverty and so forth. A lot of the new programs are very specifically related to population. Federal aid to education, to name one offhand. Mass transit aid is another.

I am trying to create sentiment insofar as I can in opposition to all-out federal aid to education. If we get too deeply into this area there is hardly any limit to where spending could go as the population increases and the demands on government increase.

We have got somehow to encourage greater acceptance of responsibility on the part of the states and local communities.

Federal aid to education has been done by the nibbling process, a little here and a little there; and if we keep on adding a little here and a little there we will complete the picture of federal aid to general education, and this is not good in my judgment.

How do you feel about the proposed health care program under social security for the aged?

At this time we should not go into a program of federal aid to the aged on any larger scale than we

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SPENDING

continued

now have. This is a challenge which should be met, if at all possible, on a local basis and by the medical profession itself in the states and local communities.

We are moving more and more toward greater interference in the lives of the people by the government. Maybe this is inevitable as we increase in population and the complexities of our society increase. But I would like for Congress to apply the brakes insofar as possible and prevent these precipitous turns because they may some day overturn the applecart.

Do you feel that various grants in aid should be given the states in a block to let them decide what is the right thing to do with the money?

That would be an abdication of the power of the Congress. It might be good from the standpoint of the states, but I don't think it ought to be done.

There has been a lot of talk about conversion of talent and capacity from military to civilian purposes. I gather that you feel this certainly is not an immediate problem. . . .

There will be some readjustments. We have rather adequately financed our intercontinental ballistic missile program, for example. We have gone a long way toward meeting our Polaris submarine program.

So we can make some changes, and there are going to be some dislocations, but we are not going to have anything in any way resembling what we had after World War II when there was considerable readjustment required.

Now it is true that there are going to be some installations closed in various portions of the country and there will be some readjustments required; but this is not going to be a major national question, in my opinion, for quite a long time.

It would just be unrealistic to take too seriously these dreams and hopes and prayers for a world at peace with tensions eradicated. Communism doesn't thrive in that kind of world, and communism is by no means dead. Communism is mellowing to some extent. But it is just as vicious and dangerous to our security as it has ever been.

What are some of the ripe areas for economies in future years? Is government personnel a good target?

Considerable funds could be saved by a program which would eliminate unnecessary and unproductive government personnel. This is easier to talk about than it is to deal with effectively.

I think our government employees ought to be well paid, but we ought to concentrate on quality rather than numbers. Too often there has been concentration on numbers. This is not good. So this is one of the fields where some progress can be made.

What other areas offer a good chance for cuts?

No area of the budget should be regarded as beyond the reach of the pruning knife. I am speaking here generally of the long pull. Every area of the budget probably affords some fruitful possibilities.

You think perhaps in five years Congress might come up with some solutions for cutting down farm subsidies?

I believe there is room for hope that some reductions can be made in farm subsidies in that period of time without injury to the over-all economy of the country and the welfare of the farmer.

How do you feel about the federal government subsidizing the cities?

Well, those of us in Congress from rural or semirural areas are sometimes confronted with a complaint from our urban colleagues; and they, of course, are in the majority. They say, We undertake to help you on agricultural programs, to help stimulate prosperity in agriculture. By the same token, we believe that you ought to be sympathetic toward the demands of the cities.

I don't think we from the agricultural areas should just turn a deaf and unresponsive ear.

The problem as I see it is to decide just what is essential and proper without destroying state and local initiative and responsibility and without getting us beyond the bounds of fiscal prudence. Agriculture is truly a national industry and of national importance. Some of these urban problems are by their nature rather localized—mass transit aid for cities is an example. But I foresee that, regardless of opposition from certain quarters, there is going to be a greater interest shown by the Congress in legislation, and probably appropriation, in the welfare of urban areas. **END**

Here's the way government grows

Members of Congress are disturbed over pressure to inflate federal role

PERSISTENT EFFORTS to expand the role of the federal government—with consequent increases in federal spending—are drawing fire from members of two key congressional committees.

"The federal government is literally bursting at the seams with all types of operating units, and there are incessant demands for further expansion of federal activities," warns Democratic Sen. John L. McClellan, chairman of the Senate Committee on Government Operations.

This admonition by Senator McClellan and others like it have been precipitated by consideration in Congress of the Administration's request for the extension of presidential authority to reorganize departments and agencies in the executive branch of government. A number of members of Congress hold strong reservations.

"Congress is increasingly and properly concerned about delegating a reorganization authority to the chief executive that allows him to reshuffle and expand the labyrinth of government agencies and functions," explains Sen. Karl E. Mundt of South Dakota, ranking Republican on the Government Operations Committee. "The trend in the past has been to expand the government through the reorganization process. The White House has missed a number of opportunities to use it to increase governmental efficiency."

Reorganization authority has been granted by Congress in various forms to all Presidents since 1929. The present act, just extended, was passed originally in 1949. It permits the President to submit reorganization plans to Congress, with the plans becoming effective in 60 days unless disapproved by either the Senate or the House.

"I hope the Congress intends to keep a closer checkrein on the reorganization authority by scrutinizing proposals more carefully and defeating those that would move government in the wrong direction," Senator Mundt says.

Democratic Rep. William L. Dawson of Illinois, chairman of the House Committee on Government Operations, believes that the power of reorganization should be used carefully with the aim of furthering economy and efficiency in the government, avoiding the danger of simply increasing its size.

A study by the Senate Government Operations Committee staff shows clearly the unrelenting pressure to inflate the size of government through creation of new executive departments, agencies, committees and commissions, and to make existing units larger by adding new boards, councils, services and the like. The pressure comes both from the Administration and from Congress itself.

During the course to date of the Eighty-eighth Congress, a total of 17 bills has been introduced providing for the creation of 11 new departments with cabinet rank. One of these was the late President Kennedy's request for a department of urban affairs and housing, rejected by the Congress, and another is President Johnson's similar proposal for a department of housing and community development.

Opposition in Congress to creation of such a department resulted in a limitation in the reorganization authority which prohibits the President from using this power to establish any new cabinet-level department. Rep. K. William Stinson of Washington, a Republican member of the House Committee on Government Operations, says:

"A new department of this kind is unnecessary. It would take over the functions of existing agencies and simply enlarge the federal bureaucracy. There's too much bureaucracy already."

Other proposals in the current Congress include some which would establish separate departments of consumers, education, health, rural and suburban government, science, transportation, transportation and communications, urbiculture, and veterans' affairs.

FRED J. MAROON

The trend in the past has been to expand the government through the President's authority to reorganize, points out Sen. Karl E. Mundt

YOICHI OKAMOTO

"The federal government is literally bursting at the seams," says Sen. John McClellan, chairman, Government Operations Committee

More than 60 reorganizations in existing departments have been proposed during the Eighty-eighth Congress, according to the study, and 36 of these were put into effect. Approximately 150 proposals were made to establish new federal agencies or change existing ones, and 46 were accomplished through acts of Congress, presidential executive orders, departmental orders or other procedures. Nearly 800 separate bills and resolutions were filed or executive orders issued to establish or extend—and, in a few cases, abolish—approximately 240 federal commissions and executive or congressional committees. Eighteen became effective.

Included in the departmental reorganizations are the creation of such new units as the Welfare Administration in the Department of Health, Education and Welfare and the Manpower Administration and Labor-Management Services Administration in the Labor Department. Presidential orders set up such bodies, for example, as a Committee and Advisory Council on Consumer Interests, Citizens' Advisory Council on the Status of Women, interagency committees on export expansion and on international athletics, and president's advisory committees on automatic data processing and on supersonic transport.

The many proposals which failed to get Congress' approval included some which would have established a Domestic Peace Corps, a Youth Conservation Corps, a Commission on the Aged and Aging, commissions on legislative ethics and standards, and a Commission on the Star-Spangled Banner Sesquicentennial Celebration. Also denied passage were bills aimed at setting up a Commission on National Spelling, a House Select Committee on a Government Lottery, and a Commission on Firefighting Equipment to study the feasibility of federal legislation requiring uniform threads on fire hose couplings.

Some of these proposals were attempts to coordinate or consolidate existing operations and boost governmental efficiency. Senator McClellan, however, points out "the increasing tendency of the executive and legislative branches of the government to propose further expansions, in the name of reorganization, which actually add to the incessant growth and increasing cost of federal programs through the necessity of establishing supporting agencies to administer them."

"The increasing cost of the federal government can be traced, to a large extent, to the extension of federal authority into all areas of human affairs," the Arkansas senator says. "When the many proposals for further extension of federal programs affecting the lives of all our people—proposed but not yet acted upon—are considered, the increased cost involved is staggering to the imagination. If all of them were approved, it would inevitably lead to national bankruptcy and ultimately to socialistic government.

"It becomes crystal clear that some brake must be put upon the continuing growth of federal activities which are constantly building up a central government directed at providing all the needs and controlling all the affairs of our people."

Democratic Sen. Henry M. Jack-

son of Washington, another member of the Committee, brings out a different aspect of the problem. "It's hard to determine whether the growth in federal government comes from reorganizations within or from demands by the taxpayers for more services," he says.

"The question is whether we can get better people into government and reduce the number of employees needed. There's no question but what there is overstaffing. Our studies of the national security agencies show it. Pay and position are awarded to officials on the basis of how many employes they have working under them, and this tends to produce empire-building. We must change the emphasis so that officials are judged by the quality of their own contribution and encouraged to cut payrolls."

How new operations pyramid the size and cost of the federal government can be seen by examining the antipoverty bill, which carries a price tag of $962.5 million for the first year.

This bill would establish an Office of Economic Opportunity. Its director would administer the various parts of the program. Other new bodies created would be a Job Corps, aimed at providing vocational education and work experience for unemployed youths; an Economic Opportunity Council, composed of the heads of federal departments and agencies involved in the program, and a National Advisory Council, made up of 14 citizens who would review the operation of the program.

"The antipoverty program sets up a new agency to do what other government departments and agencies are already doing, adding another layer of bureaucracy," asserts Republican Rep. George Meader of Michigan, a member of the House Government Operations Committee. "This is neither sound administration nor good government. It simply increases the cost of government and detracts from its efficiency."

To take another example, the Administration's plan for developing the Appalachian area would create an Appalachian Regional Commission to direct operations; a new federal agency called the Appalachian Development Corporation, which would provide financial assistance to local development groups, and an independent committee appointed by the Secretary of Commerce to judge the effectiveness of the program.

Not included in the Senate Government Operations Committee tabulations are an estimated 2,000 or more special public advisory committees and other groups composed of private citizens who make recommendations and influence government decisions on myriad matters.

"The use of citizen committees has become perhaps the most rapidly growing phenomena in governmental development in the Twentieth Century," according to Richard C. Bain, a political scholar formerly associated with the Brookings Institution. "Used by every agency of government and by public officials at all levels, the total impact of these advisory groups cannot help but be considerable. There are few controls over them, and these are not consistent. There are no established criteria by which their activities may be judged. It is a Topsy-like growth now reaching fantastic proportions about whose total influence we haven't the foggiest notion."

There is little quarrel with the basic purpose of granting the President authority to effect reorganizations within the executive branch, subject to congressional approval. The Reorganization Act of 1949, which was enacted following a strong recommendation by the first Hoover Commission, contains the stated aim of eliminating duplication, overlapping and waste; abolishing obsolete functions, and increasing economy and efficiency in the federal structure.

The question raised is whether the actual use of the authority has fulfilled its purpose. Another member of the Government Operations Committee, Sen. Carl T. Curtis, Nebraska Republican, says:

"I'm disappointed at the results of delegating reorganizational authority to the President. Plans for reducing the size of the government and simplifying it meet with resistance and fall by the wayside. Too often the plans that get through increase the size and number of agencies instead.

"We have overestimated the power of the President to reorganize the executive branch effectively. He must rely on subordinates in the various departments. A plan that would bring about a reduction in size would also cut the power and jurisdiction of some officials. It may never clear the department for action by the President.

"There are no magic shortcuts. You can't rearrange the structure of federal functions and reduce cost if you have too many functions to begin with. We must stop adding functions. Once one is started, taxpayers, communities and states get involved in it and don't want it taken away."

As a typical example of how the federal camel will move into the tent once it has nosed under the edge, Senator Curtis cites the Library Services Act of 1956. It was passed to help provide books for rural libraries, and $7.5 million yearly in matching grants was authorized for five years. It was extended in 1960 for another five years.

This year Congress voted to remove the limitation to rural areas, boosted the yearly authorization to $25 million for 1964 through 1966, and added another $20 million yearly in matching grants for library construction.

"The time to have stopped this mushrooming expansion was in the beginning," the senator adds. "It's not a proper function of the federal government to supply funds to local libraries."

Senator McClellan puts the problem into broader perspective:

"The ever-increasing expansion of the federal government and its attendant bureaucracy now involves annual budgets in excess of $100 billion, an increase of $56 billion over total budget expenditures for fiscal year 1951. These resultant expenditures automatically increase the continually mounting deficits running into billions of dollars. The national debt, now in excess of $312 billion, is also rising at the rate of more than $8 billion annually.

"This pyramiding of the already astronomical national debt dictates the compelling necessity of reducing the cost of government, where it is prudent to do so, in order to restore sound fiscal policies. The continuing increase in government activities and the addition of new federal programs and operating units required to implement them does not provide a solution to these problems. It results instead in aggravating them and in increasing deficits.

"Unless proposed reorganizations are directed toward consolidations of existing agencies or coordination of activities already authorized, rather than toward further federal expansions, these fiscal problems will continue to contribute to annual budget deficits." **END**

CUSTOMERS

continued from page 35

ing facts. Switching from a brand on a single purchase may not be caused by any real dissatisfaction at all. It can occur simply out of boredom or the desire to reassure oneself that it really is the best brand.

The reasons are not exactly clear, but the behavior of switching from a preferred brand is well documented. Further, brand loyalty of considerable strength can be developed when the available brands are essentially identical. Housewives faced with a choice of four brands of bread marked with different letters of the alphabet often build up strong preferences for one or another of the brands in spite of the fact that all came from the same oven.

Some of the work being done casts a good deal of doubt on accepted beliefs. Charles King of Purdue University suggests that the women who have the most influence on others' purchases often buy their own fashion goods later in the season rather than early.

Research by Keith Cox, now at Kent State University in Ohio, clearly demonstrates that the amount of shelf space given an article in a supermarket does not necessarily affect its sales. His results suggest that the sales of some products respond to changes in shelf space while those of others do not. And there is no classification system yet available that suggests what sorts of products react and what sorts do not.

Judgments of clothing values may be strongly influenced by the price tag. A study carried out by Morris Massey at the University of Texas with senior men demonstrated that they depended heavily on the price to determine the quality of white shirts. When shown identical shirts with different price tags, they believed that the highest priced shirt was also the best one. In fact they judged inexpensive shirts to be more valuable than expensive ones when prices were reversed. The same students were heavily influenced by the amount they usually paid for a shirt ($5 to $6). They regarded any shirt as overpriced if it was much higher and any shirt as underpriced if it was much lower.

Almost every aspect of human nature that is of major interest to the seller of products is constantly changing. It is not just that the contemporary American is different in his desires, beliefs and interests from the consumer of days past. The average American's wants and needs keep growing, altering, reforming.

A growing proportion of our population is able to indulge itself with what is known loosely as luxury merchandise. When a family moves from $8,000 a year to $11,000, it is not only difficult to tell where the extra $3,000 will go, it is difficult to determine where any of it will go.

The family may choose central air conditioning, a boat, an electric organ, a long summer trip, a second family car. The family may also change the stores where it shops, the brand of shirts the husband wears, the cuts of meat the wife buys at the grocery.

No one can specify what changes will be made or how rapidly.

It is equally difficult to determine what consumers do with any amount of extra cash, whether from a pay increase, an inheritance or a tax cut. The truth is that the consumer least of all really understands what he wants. Thus he cannot tell you with any degree of accuracy. And if he could do so, the probability is that subsequent events—or possibly his wife—may cause him to change his mind.

This, of course, describes a powerful and dynamic economy. It is not true of the underdeveloped nations nor of the moderately developed. But this points up the dilemma of success—that the higher the standard of living, the more difficult it is to determine what else people want and will buy.

There are a large number of fairly predictable consumer wants that require little more than additional income for their realization. But today, it looks as though the principal persons who have such predictable wants—the lowest fifth of the nation in income—are among the least likely to share in the nation's economic growth.

The fact that the population is growing, that the middle class is growing, means that the mass market for normal paraphernalia of American life will undoubtedly continue to grow. But more and more of the consumer income will be spent to satisfy the special wants of fairly well-to-do consumers.

This development is not one that calls merely for a host of bizarre new products. Its influence on numerous product lines is already apparent. One automobile company offers nine different seat options. The variety of sewing machine mod-

CUSTOMERS

continued

els has increased rapidly. And the number of different kinds (not brands) of household paint matches the burgeoning variety of household cleansers.

All the talk about marketing research sometimes suggests that it is employed constantly and imaginatively by virtually every business organization. Yet the evidence suggests that only the largest companies in certain industries make much more than haphazard and sporadic attempts to determine what information is needed or what information can be acquired within reasonable time and cost limits. And without a fairly systematic attempt to carry out these activities, an organization can seldom get the best return from its investment in marketing research.

None of this discounts the remarkable strides that business has made in discovering and assimilating a large range of complex and difficult techniques. Rather it points out the magnitude of the effort required to develop an entire new class of specialists and to learn how to use them.

Research limitations

The term marketing research covers a large variety of activities. Some of these are stable and well developed; others are still exploratory. An easy way to differentiate them is on the basis of the kinds of information they provide.

Undoubtedly the lion's share of the budget goes into studies of purchasing patterns and market descriptions. The former are continually in operation so that manufacturers and others can learn what the consumer is buying. An individual manufacturer of toothpaste or bread or TV sets simply cannot learn how his new, economy size, or round loaf or portable model is doing on the basis of internal records. Marketing research can tell him accurately and rapidly.

It can give him a pretty clear picture of the size and composition of the various submarkets in which he is distributing or plans to distribute. Carpeting industry sales dropped in the middle 1950's, for example, largely because new family formations sank to low levels.

Comparison tests of several sorts make it relatively simple to determine which of two advertisements, which of three packages, or which

of two products will be likely to generate the greatest consumer response. Test market procedures have grown quite sophisticated so that new promotional techniques or new products can often be tried out at relatively small expense and their effect fairly quickly determined.

But most of the major questions cannot be answered directly by marketing research, although it may be able to generate a certain amount of relevant information that can reduce risk.

There is really no way to discover what kind of new product consumers want developed except in fairly general terms. The entrepreneur still has to pay his money and take his chances.

No market researcher can in the end design women's clothing or automobiles according to the specifications of some consuming group. The desire for novelty is obvious in human behavior. Still no one has developed a technique to tell in advance how much or what kind of novelty the consumer wants. It is fairly clear that many consumer goods must change even though the change does not seem to make the product any more useful in a practical sense.

Reducing risks

Even when product changes have practical consequences, it is not generally possible to determine what the effect on sales will be. A product that is capable of saving the consumer physical effort may succeed because the consumer regards the effort as unpleasant or may fail because the consumer regards the effort as fun or valuable in some other sense.

There is much about the consumer that is unknown, and there is much that is mistakenly believed. In fact, if one assumed the economic future to be dependent upon a full understanding of consumers' wants and behavior, he could predict nothing but chaos.

Fortunately a partial understanding is sufficient to maintain a pretty strong economy. The sheer increase in the magnitude of marketing research effort over the past decade suggests that business is now in the best position ever to predict and satisfy consumer wants.

Similarly, the theoretical work being carried out by businesses, by colleges of business administration and by combined efforts of the two should provide a continually better base from which to undertake the task. **END**

How to head off trouble

You will find these suggestions helpful

"WE HOP from crisis to crisis and yet somehow I can't put my finger on anything that really spells big trouble," confided the vice president of a textile firm.

The management consultant, who had listened to this before, thought to himself, "Here is another case of a profit-making but trouble-irritated company."

Big or little, troubles in management can be headed off before they strike or their impact can at least be lessened. It's largely a matter of awareness, action and adaptability.

You need to:

- ▶ Know where trouble tends to sprout.
- ▶ Be alert to warnings of trouble.
- ▶ Take timely action.
- ▶ Exercise preventive management.

Some troubles, of course, are big ones—an unwise investment in a computer, coming out at the wrong end of a collective bargaining agreement, faulty long-range planning, loss of a tax case, outright failure of a new division or product. These make a big impact within the company—and sometimes outside. When such things go wrong word that the company is in trouble gets around.

In point of fact, however, extraordinary troubles such as these are comparatively rare. More businesses are plagued by ordinary, commonplace difficulties. Among these are difficulties with schedules, budgets, customers, records, machines, absenteeism and other bread-and-butter considerations of day-to-day management.

Trouble is the impediment between expectation and attainment in a business. Something occurs to block the fulfillment of plans and expected results.

A moderate mess imposes enough of a load on a company. In more serious cases, severe disruptions, confusion, loss of customer confidence, extensive drains on executive time and other adverse conditions result.

Trouble sometimes arises from lack of foresight, error or neglect. An inaccurate forecast may invite a setback. In other instances the root cause could be inexperience, limited skills, off-the-cuff judgments or inept decision-making. In one way or another, internal trouble is linked to deficiencies in planning or control or both.

There are times when trouble can be met head-on by means of a new concept or perspective. Or, it can be met by holding to the tested fundamentals, as in the case of the Cleveland Electric Illuminating Co., where excellent planning has counteracted trouble possibilities.

In planning for growth and expansion as well as for daily effectiveness of its activities, CEIC stresses the essentials of sound organization, measurement, and reporting to provide safeguards against troubles.

Spiegel, Inc., a large mail-order company, concentrates on quality control in office management and introduced an error-reduction check list for its large number of clerical employees.

A sound prescription for averting troubles necessarily involves both institutional and personal factors—sound planning, policies, decisions and controls on the corporate side; and, sound use of resources, judgment, timing and professional managership on the part of the individual. The prescription also requires specifics of this kind in blocking out potential troubles or dealing with them as they arise:

▶ Recognize that plans tend to be geared to expectations of the idea, then assess what could occur short of ideal results and be prepared to meet this situation. Every plan or new venture has its limitations. (See "Make the Most of New Ideas," July NATION'S BUSINESS.)

▶ Fortify yourself with managers who have a flair for cost-consciousness.

Spot trouble early

Take action fast

► Insist on a reporting system that provides meaningful and prompt reports.

► Improve the information flow—in volume, quality, selectivity and timing.

► Recognize that no business runs of itself. Every company has to use some devices to measure results and the degree of deviation from expected results.

► Set up distress signals to warn you of gathering clouds—signs that things are not going well. And use them.

► Revise, update and improve existing policies, organizational relationships and procedures, since many troubles spring from these sources.

► Understand that the increasing complexity of business and holdover obsolescence just don't mix. The latter must go, if you're intent on averting trouble.

► Build more consultation into plans, projects, schedules and other activities to assure that all responsible people are involved and have had a chance to express their views. Consultation gaps invite troubles.

► Accompany all plans with some built-in leverage, so they can be modified as changing circumstances require alteration. Have a stand-in plan ready to fill in if the original one falls through.

► Review activities at their outset, during, and periodically after they have been launched.

► Pinpoint your priorities so that concentrated attention can be given promptly to a trouble situation without serious impairment to other on-going functions.

► If things are going wrong, let your people know this, salvage what you can and try once again and this time with sufficient means for quantitative and qualitative control.

Above all, don't be tempted to believe that trouble ignored will correct itself. One untended trouble spot sets up a chain reaction which triggers other troubles.

There are, to be sure, the large orbits of technology, labor-management relations, markets and sales and the competitive future—each of which is in itself a potential area for encountering problems and finding solutions. But in the spectrum of difficulties encountered within general management, trouble-prone sources generally are these:

► People-related troubles.

► Troubles associated with ideas.

► Performance troubles.

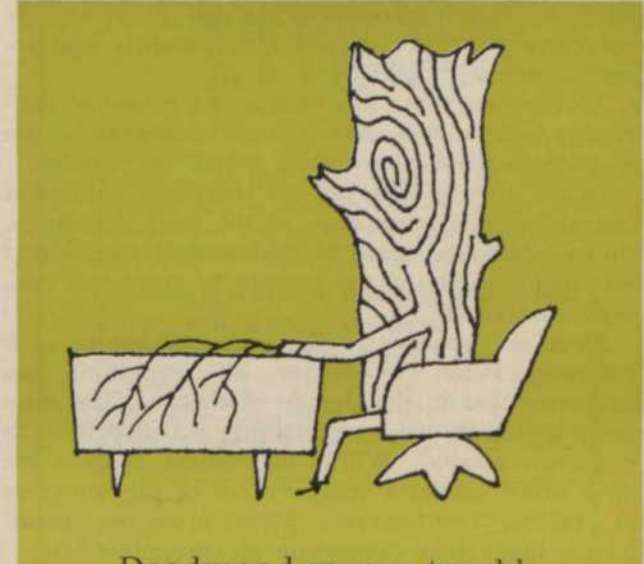
► Organizational troubles.

Psychologist Saul W. Gellerman aptly links the triad of people, problems and profits. People-related troubles rank high both in frequency and severity. Within this category are the deadwood, the mismatched, the trespassers and the negativists.

Managerial deadwood is a particular source of difficulty. Lame-duck management often results when such personnel have years of service but cannot perform at the tempo or with the skills required by changing company goals. Retaining them in management positions on the firing-line breeds bureaucratic practices and this, in turn, generates trouble in an environment where others have a low tolerance point for bureaucracy.

Deadwood tends to clog the lines of activity and to depress enthusiasm and morale among the subordinate employees. High turnover rates may develop.

Mismatching is another story. Despite all the screening devices employed by companies to assure sound selection and placement of people, poor matching of man and job still occurs. Either the job has not been updated to build into it newer and enlarged responsibilities or the man has limitations which until now have gone undetected. In any event, where there is poor matching of the man and job you can expect trouble: marginal performance, mistakes in judgment and decision-making, line and staff clashes, poor synchronization among the various functions of the business. In his frustration the mis-



Deadwood means trouble

matched man may try to impair the work of others as well to cover his own inadequacies.

Trespassers are troublemakers. By and large they comprise those who are disdainful of management and resent the management processes. They tend to violate communication channels, invade the fields of other officials, try to make end-runs on decisions which should be discussed with their colleagues. Executive trespassers have little respect for well-established boundaries. At times they are, or think they are, endowed with a special blessing from someone in the front office. Whatever the motive, trespassers invite anarchy in an organization.

Negativists generate both an attitude and a level of performance which are troublesome. Their disagreement may be with institutional goals, policies, programs, expenditures or relationships. Having voiced their opposition they still will not abide by the top-management decision made after all views have been aired. The extent to which they engage in foot-dragging, pressuring their subordinates, alienating others and in open or subtle forms of noncooperation provides continuing trouble for the company.

People-related troubles also result from the favored who are exempt from the usual rules and regulations, the pre-retirees, eager to preserve the status quo until their closing day of service, the overspecialized who are unable to see things in the broader perspective of company goals and those of the strongly entrenched old guard who try to make a contest between their assumed autonomy and that of genuine top management authority.

There are a number of things you can do to avoid the damage caused by people. Sound personnel policies are an essential first step. They help to assure greater scrutiny in selection of managerial personnel, utilization of personnel in the pre-retirement period, handling of morale situations and backing up officers who find it necessary to give their marginal subordinates a measure-up-or-else ultimatum. Such policies should also provide for training for the overspecialized.

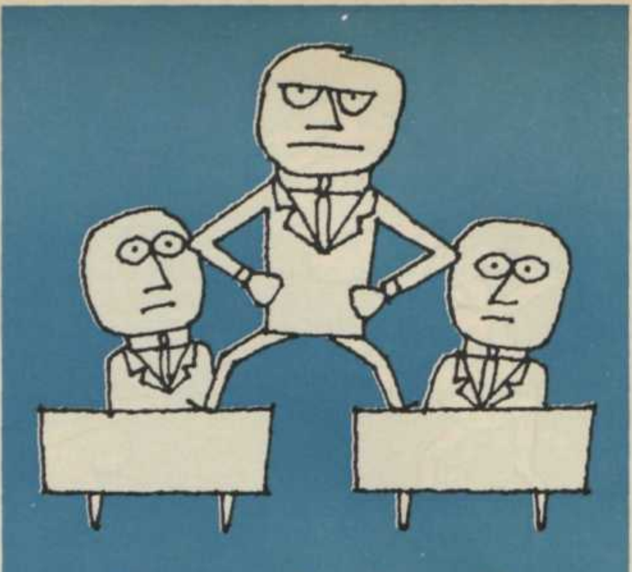
This does not relieve the manager of the responsibility to observe those who do and those who do not carry their full workload competently and cooperatively.

To have anything less than sound personnel policies or to default in one's managerial responsibilities is to perpetuate rather than attack the trouble.

In the area of ideas we are concerned with what has aptly been referred to as the reach for opportunity. And, the reach is inadequate if individuals are unable to stretch far enough to grasp new concepts and goals.

Ideas are germane to the ends and means of a business. Peter F. Drucker, the consultant, has cautioned that in this decade of change, "The company that seeks safety in stability will find itself in dangerous straits." Within the context of ideas, the kind which propel a company out of the smugness of stability are forecasts, plans, priorities, investments, innovation. There are no certainties here.

Businessmen encounter trouble when their followers are unable to deal with abstractions and consequently unable to grasp the essence of new ideas. Trouble also is inevitable when a company's personnel fear risk, when they are intent upon playing it safe.


Trespasser breeds trouble

Trouble with ideas generally is reflected in unproductive committee work, sideswipes at the staff meeting, an unwillingness among some of specialists to carry their share of the effort. The most severe form of trouble, of course, is the actual shelving of good ideas for lack of understanding or enthusiasm.

Counteraction should consist of a number of things: an organizational climate which encourages inquiry, experimentation and change; communication competency of a high order so that people can be reached and understanding really imparted; objectivity and persuasion; careful preparation and excellence in presentation of a new idea or concept; a good sense of timing and, in many cases, a good deal of patience.

Performance or output troubles are more commonplace but nevertheless serious in terms of their impact. Here you find difficulties which may require the intervention of troubleshooters. The site of the problem may be a system, a procedure, some piece of automated equipment, schedule failure, records, space inadequacy, safety hazards, underbudgeting.

In his experience with projects involving industrial components for nuclear power systems, Rear Admiral Hyman G. Rickover has pointed to a number of instances in which substandard performance results from lack of understanding of the manufacturing process in a rapidly changing technology. Many other leading engineers and industrialists have joined him in citing this as a serious threat to industrial progress. Poor workmanship, selection of wrong raw materials, lack of engineering savvy and other deficiencies are compounded by inadequate inspection and the general lack of quality control.

A performance breakdown is usually flagged. Warning signals go up in the form of breakdowns, reports of customer dissatisfaction, accidents.

Various corrective steps can be taken, but the

most notable one has to be a higher level of quality control generally in the plant and the office. (See "Put Troubleshooters on Target," NATION'S BUSINESS, September, 1959.)

Organizational troubles present a special kind of challenge for several reasons. First, they are often tilted by power and authority considerations—sacred cows—which prompt management to withdraw from any kind of a showdown. Second, there is usually a low visibility level—things go on in violation of sound principles of organization and you just don't see them, at least not clearly, until they begin to show up in some repetitious pattern. Third, as organizational structure grows more complex, decentralized and perhaps unwieldy, it is more difficult to spot and diagnose a specific trouble.

Organizational specialists often are not inclined to acknowledge defects in their craftsmanship. Short-tenure officials in middle management tend to live with organizational difficulties as part of business life and put up with them until they move on to other pastures.

Result: indifference to organization.

"Organization doesn't count at all," they contend, "only good people do, to get things done." This blinks the fact that good organization expedites the work of good people.

For all this, there are identifiable areas of organizationally related troubles. Clashes over who has authority to decide what, misunderstanding between line officials and staff specialists, lack of coordination between two or more departments and other symptoms of a malfunctioning organization begin to show up.

The causes and the symptoms are not far apart. Among the more potent causes are policies which were ill-conceived and not capable of being enforced but still remain on the books; perpetuation of functions that have long since outlived their usefulness; layers of review and nitpicking before a decision can be made, and undue authority conferred on one division which enables it to overpower others. In many instances there have been lapses of five years or more since some organizational planning expert took a good look at the company structure.

Negativist makes trouble

Indicators can be used here, too, to spot impending trouble. Failure to make decisions on time constitutes one significant sign. Office politics and quiet feuds are other signs that trouble is brewing. Certain matters seem to be falling between the desks and no one can be tagged as specifically accountable.

What to do?

Make periodic management audits, so that you can get a clearer profile of what is going on in the organization, openly or concealed.

Modernize the organization, as you would modernize capital equipment, financial statements, physical layouts or other aspects of the business.

Update and keep current policies, manuals, procedural outlines, rules and regulations, organization charts, job descriptions and other tools.

Clearly delineate the lines of authority and responsibility.

Tackle—at the earliest date—any policies which appear to be fuzzy and about which there have been varying interpretations.

Grow and diversify if company goals and business success generate it, but try to keep the organizational structure and relationship relatively simple and clear.

Engineer the organization periodically to smoke out duplication, unnecessary procedures, excessive reviews, staff encroachment upon line functions.

Exercise quality control over your organization—just as you do over your products and services—for the two are interrelated.

Finally, pick your management personnel carefully and bring them along.

There is almost always some element of conflict among people when there is organizationally related trouble, because of the stakes involved and the threat to power, status and authority. For this reason, it is generally a mistake to believe that you can ignore trouble, solve it by appeasement or manipulate it at your will. Any one of these approaches will backfire. It is much more effective to face up to it objectively and with as large a fund of facts as possible. Hold firm to the decision you finally reach.

Managers are paid for their dedication and skills in keeping things in balance in the best interests of company objectives—whether it be people, ideas, performance or organization. In this effort to achieve balance they must be concerned both with too much and too little control, with too much centralization and warranted decentralization, with too many risks or too few risks, with too many specializations or too few. Imbalance leads to trouble, and it is the manager's fundamental task to spot and correct trouble and to bring things back into balance.

—NATHANIEL STEWART

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PICK THE MIDDLE ROAD FOR SUCCESS

Best results will be attained by realistic approach that avoids the extremes of both optimism, pessimism

ULTRAOPTIMISM—our nation's favorite frame of mind—is an attitude no wise businessman should acquire.

Certainly the American dream of opportunity on a scale unknown elsewhere has been realized by hundreds of millions of Americans. And events in our history have helped justify widespread optimism that goes beyond pure faith in our private enterprise system.

But the intensity of our national taste for optimism suggests that it is more than just an accurate summary of our experience. From a fact of history, it was turned into a moral injunction. From the belief that things would always go well of their own accord, we turned to the belief that things would go better only if we believed that they would, or if, at least, we acted as though we believed it.

We have therefore gone around persuading each other to accentuate the positive and eliminate the negative. We have urged ourselves to smile, not on the chivalrous principle of "grin and bear it," but on the doctrine that our smiling forces fate to turn things in our favor.

What makes extravagant optimism a dangerous mistake is that it is not merely an internal frame of mind. The dogmatic optimist really believes and expects things to work out well.

The Federal Aviation Agency prohibits pilots from taking tranquilizers, because a tranquilized pilot does not worry enough. He does not anticipate troubles, and therefore does not react quickly enough, if at all, when troubles do come. A tranquilized pilot is a great optimist; he enjoys his carefree condition and it is good for his digestion, but would not be much appreciated by the passengers he might smash up.

No prudent business executive would want to have a wholly optimistic staff, and for the same reason. Put a dedicated optimist in charge of capital budgeting and you may wind up with losses that any good, worrying sort of executive would have anticipated from the beginning. This is not to say that businessmen should bet only on sure things, but rather that to take risks blithely, in sheer indifference to their riskiness, is an unintelligent way to do business.

People become prudent by weighing risks, but the pure optimist ignores risk, which makes him a danger to his associates.

When optimism hurts

Even a more balanced optimist can be a danger to others, by persuading them that the situation is not really as bad as it seems to be. After all, some situations are worse than they seem to be. An example of this is the unforgettable pronouncement that President Hoover made after the great crash of 1929: "Prosperity is just around the corner." As we know now, it was not.

Optimism is a bipartisan attitude. President Roosevelt declared shortly afterwards: "All we have to fear is fear itself." What he presumably meant was that if all Americans became more optimistic, the situation would rapidly improve.

Up to a point, of course, both Presidents were quite right in assuming that whether a depression will continue or not depends in part on the public's morale. If people think the economy will pick up, and act accordingly—building up inventories and making new investments, or buying houses and durable goods—their behavior will tend to confirm their expectations. But great depressions cannot be defeated by changes of attitude alone, any more than severe infections can be fought off merely by the patient's cheerfulness.

Quite the contrary. At moments of crisis, optimism becomes a particularly dangerous attitude, dangerous not only because optimism will not really solve the problem, but because it may aggravate the problem. When the optimists are finally unable to keep up their sanguine hope in the face of the dismal facts, they are likely to end up much less hopeful than they would have been had they been told to expect a hard time. They may, in fact, become paralyzed by their despair.

The way that unjustified confidence can work was illustrated by the stock market break of May, 1962. Because the three or four postwar recessions have all been mild, and because they were largely

contained by the built-in economic stabilizers, many Americans, businessmen among them, had come to feel that our economy was depression-proof.

Although the condition of the economy and the behavior of the stock market are not absolutely linked, excessive confidence in the one spilled over into the domain of the other, especially since the stock market also had been behaving very nicely since the end of World War II. Then, when the market break came, instead of merely creating a reasonable amount of disappointment, it created among many a fear that everything was coming to an end.

Luckily, their despair was only momentary, but despair is never a fruitful reaction. Too many people had drawn the optimistic and dangerous conclusion that a long run of good luck guarantees the indefinite continuation of good luck.

In fact, optimism, when finally frustrated by undeniable facts, can lead to reactions even more dangerous than despair and paralysis.

Suppose the technical training manager of a company sets two young trainees to the task of assembling a fine instrument, so intricate he is sure neither of them will be able to do the job. He puts one trainee in a foolishly optimistic frame of mind by telling him that the job is easy. He tells the other trainee the job is extremely difficult.

If the experiment is properly designed, neither trainee will in fact be able to do the job; but their reactions to failure will be quite different. The first, at a certain stage, will rebel against the task and may, if he is inclined that way, become resentful. He will, no matter what his makeup, be badly disappointed. The second trainee, on the other hand, will have no occasion for violent disappointment, and even though he has not succeeded, he will have been doing the work in a spirit that enables him to learn.

When illusions fail

Shattered illusions do not merely sadden people. They drive some people into violent and destructive behavior. Nobody enjoys having his illusions shattered; some men are wiser and better for it, others are destroyed by it, and still others take revenge for the injury by lashing out against their fellows. Such behavior can be seen repeatedly in the political and economic affairs of men.

But none of these grave defects in optimism should persuade anyone to turn pessimist. Pessimism is in one sense the opposite of optimism. In another, more important sense, pessimism is identical with optimism. Both are automatic predicting machines which keep churning out the same kind of prediction regardless of circumstances.

The pessimist always expects the worst possibility to turn up, the optimist always expects the best. The pessimist will always sell short; the optimist will do just the opposite. In the long run each would be as successful or unsuccessful as the other. Even from the standpoint of how much satisfaction their possessors get from them, optimism and pessimism are hard to tell apart.

No wise businessman would long allow himself to be either an extreme optimist or pessimist. He will, of course, aim to act in a moderately calm and cheerful way, no matter what the situation is. That is partly a matter of common courtesy. No gentleman goes about assailing his associates' or employes' ears with shrieks of misery and doom. Cheerfulness is also a matter of common prudence. An habitual attitude of defeatism closes off a man's energies and imagination.

The realist has no dogmatic predicting machine where his mind should be. He faces up to the facts

What inner attitude should a wise and prudent businessman cultivate in place of optimism or pessimism? He should be a realist. Since every businessman must experience both success and failure, pleasure and displeasure, good luck and bad, he had better recognize both sets of possibilities in his estimates of the future. Since the world contains both good and evil, it is willful ignorance to adopt a position that denies the presence of either.

Since human progress is irregular and mixed, it is sheer silliness to expect every change in human conditions to be for the good, or for the worse.

A realist, defined in this way, is a man who has no dogmatic predicting machine where his mind should be. He bases his expectations about the outcome of any event—be it economic, personal or political—on the best information he can get and the most careful thought he can apply. To be a realist, in this sense, is obviously the only thing a reasonable businessman can choose to be.

But if realism is so obviously correct, why have so many reasonable Americans resisted it? Probably because of a deep confusion about the moral implications of realism. To be a realist is to be flexible in your analysis of facts and in your estimates of future consequences. This does not in any way imply being flexible in your moral standards.

To predict that a certain tax inspector would probably take a bribe—a prediction that a complete optimist would never make—is not to condone his taking the bribe. To recognize that some buyers are naïve is not to condone cheating.

In short, to understand the facts does not imply either approval or disapproval. Moral judgment and factual judgment are absolutely separate activities.

Unfortunately, being realistic has in common speech come to stand for the idea of being as unprincipled and vicious as you believe the next man to be.

In the same fashion, realistic politics—a phrase that came into the English language by way of translation from Hitler's favorite expression *Realpolitik*—has come to mean the politics of grabbing everything one can carry away, that is, politics managed with sovereign disregard for moral principles, justice, and international law. In short, the once harmless word realism has been so sullied that it is now practically untouchable.

In view of that, a businessman who rejects both optimism and pessimism, and who therefore is a realist, ought not publicly to call himself a realist. There is really no need, in any case, to call himself by any other name than his own.—PROF. WILLIAM LETWIN
School of Industrial Management, Massachusetts Institute of Technology

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a result of reduced taxes. We all realize that as our country grows in population, our labor force increases, our need for airways, highways and so on increases, we will have to meet these increasing needs as we have in the past. But we must be sure that economic growth in the private sector replaces government spending in every area possible. If we accomplish that, then once we get to the point of a balanced budget, we can review again what we have done and whether the results justify another try at doing something about taxes.

Only the future can tell whether or not we can accomplish this same operation a second time.

If you got excess revenue should part of it be put into national debt reduction rather than tax cuts?

Yes, we must allow some of this additional revenue to be applied on the debt. We certainly are not thinking in terms of just getting to a balance and then creating a deficit again, with no thought of ever making any payment on the public debt.

In recent years the amount of revenue-producing tax changes has been considerable. Does this indicate that Congress is more favorable toward broadening the taxable base? Or does this mean that you have nearly exhausted the possibilities in this area?

It is difficult to speak in terms of what the Congress feels. But I would imagine that many members would at least look with favor upon a continued effort by the Ways and Means Committee to find more ways to reduce the tax rates on individuals and businesses. One way that you can reduce rates is to subject more dollars to the rate itself or to the full imposition of the rate.

The fact that we have not fully succeeded in broadening the tax base and lowering the rates, doesn't mean, or should not be taken to mean, that there is no further interest in it. Certainly there is on my part.

If we could reach a point where there is a combination of both broadening the base and reduction in government spending, it could give rise to further reduction in rates.

We run into much opposition when we endeavor to make dollars subject to taxation that are not now subject to taxation. A great pressure is built up. People have vested rights and feel that they have, over the years, fully justified those rights. They don't want to give them up.

I think that, since World War II, there has been a reversal of the trend of providing relief to one segment or another of our society by special provisions. There have been fewer of those types of amendments by Congress in the last five years, say, than was previously the case. If we have not succeeded in broadening the base to the extent some people wanted it broadened, at least the Congress should be given the credit for having prevented a further erosion of the base. In any event, I feel there is strong public sentiment that we continue our efforts to make our tax system as fair and equitable as we can, particularly since the end result would mean lower rates for everyone.

Do you think people will be paying less taxes five years from now?

It is difficult to predict. Much of the answer would have to lie in what happens throughout the world and the requirements that will exist during that period of time for defense and other matters relating to defense.

If tax reductions generate more economic growth, how far can you cut? Is there a point of diminishing returns?

There may be. I don't know whether there is or not; and certainly I don't know at what point we would reach a turn.

An important thing to bear in mind is this: We became a great nation economically before World War II, or we would not have had the productive capacity to have won World War II. Certainly it took a strong nation economically as well as spiritually to win the War. We got to the point we did under much lower rates of taxation than we have had since World War II.

Since then we have had these very short upturns and then downturns in economic activity. Now whether or not the high tax rates have caused these developments no one can prove. Certainly, it is my own thought that many factors have contributed to these ups and downs in the economy. But I believe that we must include in those factors the continuation of these World War II excessively high rates of taxes which have placed such a burden on the economy.

This may have kept the economy from getting quite as far up hill as it would have without the extreme burden. To the extent that the burden is reduced, therefore, the economy can better advance.

But in the process of determining tax policy, one always has to bear in mind over-all fiscal policy.

Probably the ideal thing, from the point of view of the freedom of the private sector, would be no tax. But we can't do that because fiscal policy won't let us completely release the private sector of the economy. So we have to moderate what we would do in the tax field because of fiscal policy. If government spends, it must tax.

Therefore, it was important, in connection with the recent tax cut, that we relate the two things: taxes and expenditures. If the relationship is not fully recognized and maintained then you don't accomplish all that you intended when you set out on a given program.

What should be the highest tax rate? Should it be as low as pre-war?

It depends entirely upon fiscal policy—spending. I think it would be good if we had rates of taxation such as those before World War II. But we can't have those rates if we must have the spending we have today. Those rates and present spending would create inflation and would create a greater public debt.

Our desires with respect to taxation are not always obtainable. We go as far in these desires as fiscal policy permits.

There have been some who point out that if you went the full road of broadening the base of our tax by eliminating special deductions, credits and other relief provisions you could have rates as low as 40 per cent. It may be true.

Do you feel that we will have more progressiveness or less in income tax rates in the future?

Under the new tax rate, we have greater progressiveness with respect to the first four brackets since these formerly were taxed at a single rate. We have less progressiveness in the brackets above the first four. This is indicated by the fact that the top rate is reduced from 91 per cent to 70 per cent.

Will we have roughly this amount of progressiveness in the future?

It depends. If we finally succeed in getting rates down, say, to 40 or 50 per cent, we could under such an arrangement lose some of the progressiveness we have today if we did not make adjustments with respect to other rates going up to the top.

I do think the income tax itself should always be based upon some degree of progressiveness in rates.

There are those who suggest that we have a flat rate of taxation. I would doubt that that is the better course to pursue.

Is liberalization of depreciation and investment credits a good way to increase incentive for business to invest or is it better done through reduction in rates?

It depends upon what you want to do. If you want to increase cash flow you can do it by adjustment of depreciation and providing investment credit. But, if you want to create the picture of enlarged profits over a period of years, you do that by adjusting your rates downward.

Now, there are some—depending upon the businesses they are in—who have stated they might prefer one way or the other to accomplish this. I think it is best for us, as we consider tax policy, to think in terms of going both ways to some extent because both are important in the operation of a business, bearing in mind that depreciation is nothing more than a set of rules in its area to enable you to determine what the income of a business is in the course of any one taxable year. But they also play a very important part in keeping moneys from being taxed which are necessary to replace those properties that are essential to production of the income.

I would think it would be best for us not to move exclusively in one field or the other, but to do as we have done in the past, think in terms of continuing to change in both areas.

Is there a possibility in the future of an option system under which a person could choose to give up credits or deductions and pay a lower rate?

We discussed in the Committee on Ways and Means in connection with the Revenue Act of 1964 the possibilities of creating, by law, such an option. We were thinking in terms of an optional set of rates that would be applicable to the income which a taxpayer has, without deductions, that is without his taking any personal deductions.

If you have such an option it might be necessary that the taxpayer be required to choose it for a period of more than one taxable year for reasons that I am sure are apparent. That might well be required. It has been suggested by some the option should be for five years.

I think it is a very fertile area for us to study and explore for possible enactment in some future year when

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continued

we can justify some further loss of revenue.

Some think that if we had such a provision in the law, and it worked, more and more taxpayers would get away from the difficulty and complications of filing a regular tax return and use the option. In time it might then become not an option, but the ordinary method that most taxpayers would use.

Are there any particular new deductions that you expect in the future to be real possibilities?

If you looked at all the bills that have been introduced and pending before the Committee on Ways and Means, you would find an almost inexhaustible variety of ways to provide additional deductions. You can make a justification for practically all of them if you look solely at the public policy, social or other reasons involved. But if we move in the direction of providing additional deductions from the tax rate, we would certainly further postpone any future possibility of reduction in the rates.

A rate reduction, of course, frees money for the taxpayer which he can use for any purpose he wants to. It may be that the taxpayers generally would receive as much benefit from some of the proposed deductions as they would through future rate reductions. One has to make up his mind which course is better from the point of view of the welfare of all and the growth of our economy.

Do you think the President should be given the power of cutting or raising taxes to help offset economic conditions?

I doubt that it is wise for any one person to have such a responsibility and authority from his own point of view. I doubt that it is wise for any one person to exercise that authority from the point of view of all our people.

Certainly I would question the advisability of giving the President the authority to increase taxes. You know, of course, there is a provision in the Constitution which requires that all bills for the raising of revenue shall originate in the House of Representatives. I have no idea what arrangements would be given for people to be heard as to which rates should be increased and which rates should not be increased, which segments should be taxed to a greater extent than others, and so on. That almost borders upon taxation without representation.

The arguments as to authority to increase taxes are not all applicable to the power to reduce taxes. But here again, I think that if taxes need to be reduced, if circumstances justify reduction in taxes, it is better to follow the time-honored practice of submitting requests to the Congress and letting the Congress carry out its will where people can be heard, where determinations can be made based upon careful studies of the expression of views of the interested people.

Don't some of the industrialized countries in Europe let business write off the cost of new equipment faster than U.S. companies can?

Oh, yes. Undoubtedly there are many countries of Western Europe where investments in business properties can be recouped at a faster rate and in a shorter period of time than they can be in the United States.

In view of international competition, does more need to be done in this area?

I'm never satisfied that we have done all that we should ever do with respect to the tax law. It is a matter that requires constant attention in the hope that we can provide for the type of improvement you have referred to, along with other improvements. We can strive to bring our own people into a position of having this tax advantage over their foreign competitors.

Can you imagine taxes being increased to fight inflation in this country anytime in the next few years?

It is always hard to know what will happen.

But tax policy can be used to combat inflation. Almost everyone agrees. If inflation should reach a point, sometime in the future, that increased rates are necessary in order to prevent increase, or even bring a reduction in inflation, the Congress would certainly want to consider using tax policy as one possibility.

Would there be any need to raise taxes in the event of a war in Southeast Asia?

It depends entirely upon the extent of the expenditures that would be involved, as to whether or not we would feel justified in doing that. We would just have to view the situation as it developed.

Should the income tax always be our primary source of federal revenue?

Well, certain of the excise taxes we would not change anytime soon. The tax on gasoline and other proceeds which go into the Highway Trust Fund are committed toward that expenditure until 1972. So for that reason we are limited in our ability to do anything about those.

When you add the revenues from all types of distilled spirits, tobacco taxes, the taxes that go into the Highway Trust Fund, you have

YOICHI OKAMOTO

Rep. Wilbur Mills

about \$9.5 billion of the \$14.7 billion involved in the excise taxes, so you have left about \$5.2 billion coming from all other sources.

Now, whatever changes we would make in the excise tax field might have to be limited to these \$5.2 billion. The Committee may find itself working more in that area than any other.

It is not certain yet what the Committee will do. We want to look at all of the excise rates. As soon as our fiscal situation will permit us, we want to change some of the rates, maybe even eliminate some of the taxes. The extent to which

we can go will depend upon the fiscal situation at the time.

To the more basic question, what part should come from income tax and what part should come from excise tax, I have always felt that we have to correlate taxes in the United States, unlike some countries in the world where most or all of the tax is collected by one level of government. Here we have towns and cities collecting taxes, counties collecting taxes, states collecting taxes, special taxing districts, as well as federal taxes. If we all went in the same area of taxation we would probably create greater troubles than we do today.

We have to relate what we do at the federal level to what is done by other governmental bodies. We couldn't all go into excise taxes without causing undue problems in the areas that would be affected by excise taxes. We can't all go into income tax and raise the amounts of money that are required by all of the various governmental bodies. If we did we would be imposing upon people and businesses such taxation that we couldn't expect them to survive.

What I am saying in essence is this: Your largest tax gatherer, which is the federal government, better relies for most of its revenues upon a system of income taxation that provides for progressiveness. Other governmental bodies have historically followed other avenues of taxation, such as property tax and sales taxes. So I would look with a great deal of concern upon a decision by the federal government to pay for $97 billion of federal spending through, for instance, excise and sales taxes without the states themselves having some opportunity to adjust their own tax programs.

What is your philosophy with regard to the primary objective of our tax system?

My philosophy has not changed. We should seek a tax climate favorable to economic growth, income taxes under which people with the same income should pay like amounts of tax, an income tax that interferes as little as possible with decisions of the market place. We seek a system of fairness, relative ease of compliance and which will respond quickly to changes in economic conditions to restrain inflation and recession.

To what extent can our tax system help avoid recessions in the future?

I don't know that tax policy or anything else could be said to possess that power.

I have a very strong feeling that much of our present economic activity and prosperity is based upon the anticipation of this recent tax reduction as well as its actual enactment. You will recall in the beginning that there was a great deal of concern expressed by many people as to the advisability of undertaking such a program. You will also recall that I had stated specifically that I would not favor a quickie tax cut that was being suggested by some in 1962.

I said I would be for a balanced tax reduction program involving reduction in rates with as much reform in the tax law as possible, provided that action could be coupled with a position and a policy of holding the line on spending.

This once again indicates the view that I've always had that you can't form tax policy in a vacuum. You have to connect it with your spending policy. They have to go hand in hand.

In other words what I wanted to do was to create the circumstance under which we could permit the private sector to exercise greater vigor and vitality in the economy realizing that if we impose that responsibility upon the private sector we must also impose responsibilities on ourselves of adjusting our fiscal policy to accommodate that situation.

As to the immediate future, I feel that this action has certainly contributed to the maintenance of the present upward swing in our economy. There were those who freely predicted that we would reach the end of the upswing in January, February, or sometime during the first quarter of 1963. I don't know that we could have continued this present upswing without the prospects of this tax bill.

It is highly questionable whether you can reduce taxes after a depression is under way and have the effect upon the economy that you might have if you reduce taxes before the downturn begins. There are those who would argue that the extent of tax reduction after a depression has begun would have to be far greater and you are always justified in expecting less reaction in the economy from it.

So I don't know that you could use tax reductions to overcome a depression. I feel there is a strong possibility you can use tax reductions to prevent a depression occurring as early as it otherwise would occur. **END**

UNIONS PUSH

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effective as they claim we are. Look, we have a million members of organized labor in Ohio, yet we have a conservative senator like Lausche.

I'm not trying to downgrade labor's political effectiveness. I think each year that goes by, each campaign that goes by, we are doing better and better.

But we are still basically engrossed in the organizational job of registering our people. Our people aren't registered. Business people are registered.

Our people don't come out to vote. Business people do come out to vote.

Business people get the money up. Our people—we can't get enough of them to give a dollar a year. But it gets better. Each campaign we do better. But this is our basic job—organization. That's the reason for our existence. We still have a long way to go.

Are you dissatisfied with the turnout of union members at the polls and their voting performance?

We are happy with the improvement we've been making, but still unhappy with the over-all performance. We would like to be able to have a situation like that involving Len Yarborough, who is secretary-treasurer of Oklahoma's COPE.

In the recent right-to-work referendum fight he comes in and reports that in 10 counties of Oklahoma he was in charge of, all but 26 of the members of AFL-CIO and the adults in their families were registered. He had that thing broken down so that he knew that, of the 26, six of them were illiterate and were too embarrassed to put their "X" down, 11 wouldn't vote for religious reasons. Two people were in Alaska and—I don't know what was the matter with the other seven but he had the thing broken down to the point where he knew.

What percentage of your members are registered and vote?

This varies from election to election but I would say roughly 65 per cent of our people are registered. Of that, I would say 80 to 85 per cent vote in a presidential election. In a primary, in an off-year, it will go down to 60 per cent of those registered.

How much are you trying to improve your registration?

If we can get an increase of 15 to 20 per cent, bringing it up to 75 or 80 per cent, we'd consider that real progress.

Could you tell us about your registration program?

As he did in 1960, and 1962, AFL-CIO President Meany has been able to get the services of Roy Reuther, who, in my opinion, is the most knowledgeable authority in the field of registration, to take leave from the United Automobile Workers and head up our operation.

This, by the way, is both a registration and get-out-the-vote operation.

The program is being financed by special registration assessment from each of the international unions. It is a voluntary assessment of five cents per member. We expect to raise some $600,000. The bulk of it is in already.

This is out of the dues treasuries of the unions?

That's right. This is a nonpartisan registration effort. We have sat down with the leaders of our 50 state COPE's and we have

SELECTIVE REGISTRATION

"When you pay a candidate's bills, you are not so sure where the money is going.

"When you make a donation to a candidate, you can't be sure.

"But when you spend your money to get people registered, and then spend a lesser proportion to get them out to vote, you know you got a vote in the ballot box.

"Of course, we are a little bit choosy when we choose districts in which we want to better these votes in the ballot box, so that when they go in we have a pretty good idea how they are going to vote."

George Meany, Chairman
AFL-CIO Committee on Political Education

worked out registration and get-out-the-vote programs that call for the state organizations to contribute a certain sum of money towards the budget in order to qualify for national help.

Will you match it two to one?

That's what we did in the past and undoubtedly we will do it again.

How much of the vote do you consider deliverable to the candidate COPE endorses?

Well, we don't like to use the term deliverable. If 70 to 80 per cent of our membership will follow the endorsements made by COPE, we think that is good.

Do your studies indicate that that is what you generally get?

Yes, when we have a good candidate, a popular candidate. President Kennedy got that much from our people. On the other hand, when Adlai Stevenson ran against a war hero this went down. I would suspect, in some areas, that perhaps less than 60 per cent of our people backed him.

So the personalities of the candidates have something to do with it?

That's right. And the issues that are uppermost in the campaign have a lot to do with the thing.

Is there any single issue that you feel is going to be particularly decisive this fall?

Unemployment and the problems of automation.

Even in areas where employment may be high?

That's right. Because there is constant job erosion and new techniques that come in. Our people get very uneasy about their own employment.

How can you say a candidate is for or against you on this issue? Aren't all candidates against unemployment?

Yes. But it is their attitude on programs. On public works, on minimum wage, on area redevelopment, on retraining, on a shorter work-week; these are the big issues. Some are sensitive to the problem. We get the feeling that some congressmen and senators don't even recognize it as a problem.

How do you evaluate a new candidate who doesn't have a voting record?

Our people generally will interview candidates or ask them to

UNIONS PUSH

continued

state their position on important issues.

It's generally believed that COPE supports Democrats. Can you tell us how many Republicans you support?

It is hard to give a figure. Unfortunately, the figure is getting smaller. We just don't find enough Republicans, on the basis of their position and the basis of their record, who warrant our support. So, you find in 1962 there were about a dozen Republican congressmen who got COPE support. In the Senate state COPE's have supported Case in New Jersey, Javits and Keating in New York, Margaret Chase Smith in Maine and Kuchel in California.

Unfortunately for us, in the South where we are opposed to conservative Democrats, and where we would welcome Republican opposition, we find the Republicans in many areas are more reactionary than the Democrats.

What is the nature of your support?

The principal support we can give a candidate is to organize and educate and bring out our own members. That's our basic goal.

The money we can give a candidate can only be a small portion of what he needs in order to run a successful campaign.

We don't put much stock in the endorsement alone. Unless it's backed up with votes it is meaningless. Our union members don't just wait for the labor movement to make its decision and then run to support that decision. Our people have to be convinced of the validity of the endorsement.

How does COPE work with other union political groups, such as those in the Teamsters, the railroad unions and others?

We have no relations at all with the Teamsters. We work closely with the Machinists Non-Partisan League, but they maintain their own identity. They do their own fund-raising. Railway Labor's Political League also operates as an independent group.

Do they participate in your dollar drive?

No. They raise their own money. But they'll work with us.

Then you are not getting money from the entire membership?

That's right. It is a voluntary assessment.

How much do you give to a senator?

From $5,000 to $10,000 to a senator. If the candidate has an easy race we'll give less. We never have enough.

What about congressmen?

Roughly $2,000. We'll go up to $3,000. That's just from this office. Other unions contribute on their own.

How do you differentiate between educational activities for which you can use dues money and direct political support for which you have to use voluntary donations?

When it comes to a direct contribution to a federal candidate, we follow a strict legal line and only use voluntary dollars.

We also use only voluntary dollars for expenditures that are frankly political.

But in your registration drives?

We assume that registration and get-out-the-vote are nonpartisan. We just tell them to vote and we take our chances on whether they will vote for the COPE-endorsed

LABOR'S GROWING INFLUENCE IN CONGRESS

The number of Senate and House members who organized labor claims as friends because they cast more right than wrong votes by union political standards has increased steadily to more than a majority in both branches since the AFL joined the CIO in direct political activity in the 1948 elections.

The table below was compiled by Nation's Business from voting records published by union political organizations. The lineup in the Eighty-eighth Congress is based on votes cast during the first session.

CONGRESS	SENATE	HOUSE	ELECTED IN
Eightieth	25	83	1946
Eighty-first	44	209	1948
Eighty-second	38	183	1950
Eighty-third	36	153	1952
Eighty-fourth	40	190	1954
Eighty-fifth	42	191	1956
Eighty-sixth	53	221	1958
Eighty-seventh	55	210	1960
Eighty-eighth	63	225	1962

1964 GOALS

Elect three or four more friendly senators.

Elect 20 or 30 more friendly House members.

Leaders believe that with this many more friends in Congress they can get repeal of objectional parts of the Taft-Hartley law and passage of the major parts of organized labor's legislative program, including the shorter workweek, a $2 minimum wage and medical care for the aged under social security.

candidate or not. I am sure that many of the people that we have brought out voted against us. But we brought them out anyhow. We try to get our people to register and to vote.

Don't you concentrate on the areas and neighborhoods where people are more likely to support your views?

That's right. Our people normally live in the low- and middle-income areas, and, as you know in these days of television and automobiles the attendance at union meetings isn't what it should be. We try to reach our members where we can reach them best.

Often it is in their homes, the neighborhoods, where we can reach them best, and that's where the sound-trucks will be put out; that's where the telephone callers will concentrate on reaching them—at home as well as in factories.

Do you have a quota for educational money?

No, there is no quota. We ask that an international union, if it hasn't been able to raise the quota in voluntary dollars, make it up with a treasury contribution. Those unions that cooperate with COPE are doing a better job raising money each year. So, they've had to dip less and less in their treasuries. While we still have a long way to go, the dollar drive improves each year.

Do you make dollar contributions to presidential candidates?

No.

The AFL-CIO seems pleased with President Johnson. Is it a foregone conclusion that you will support him?

I really can't comment on that. President Meany has announced that the general board will meet Sept. 1. This will be after both conventions. The decision on whom we are going to endorse will be made then.

You have endorsed the Democratic nominee every time in the past?

Yes, but it is not mandatory. It is voluntary, like all of our endorsements.

I don't know of one organization or one individual who has been disciplined or in any way imposed upon for not going along with a COPE endorsement.

Will some officials support other candidates?

I think most leaders who are good trade unionists will follow the endorsements. **END**

Men who work without pay for the good of business, and for the long-range good of the country

These men whose pictures you see here are the *chairmen* of the National Chamber's committees for 1964-'65.

These men are typical of the thousand and more business and professional leaders who serve on National Chamber committees on a voluntary basis – men who work without pay for the good of private business, and for the long-range good of the country.

Each committee is a specialized research body. It is an advisory body to the Chamber's Board of Directors. Each committee is set up to do one of three things:

- To analyze trends and developments affecting business and the economy; *or*
- To study a group of related legislative issues; *or*
- To study a certain aspect of the Chamber's work.

Although these committees do not formulate National Chamber policies, they do make specific recommendations for revisions in existing policies to keep them up to date, and for needed new policies to be voted on by the Chamber's membership. Also, the committees keep a steady flow of ideas and suggestions coming to the Board of Directors for new National Chamber projects, programs and activities to strengthen and improve the free-market economy and to preserve self-government. Our booklet, "Officers, Directors and Committeemen," outlines the purpose of each committee, and lists the committee members by name, title and business affiliation. Write for a free copy.

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RISING ISSUE–THE PUBLIC DEBT

Policymakers will debate cutting or increasing amount U.S. owes

A NEW STRUGGLE over national economic policy is shaping up at a faster pace than many citizens realize. It could be one of the most important policy battles of the last half of the '60's, no matter who wins this November's election.

The coming debate is this: How should the federal government use the added revenue it will get as a result of a booming economy fueled by this year's tax cut?

Should Uncle Sam use the rising revenue on still more spending? On another tax cut? On reduction of the $312 billion national debt? Or on a combination?

The decision will affect your costs of doing business.

It will also affect the future stability of the economy and provide an important guide as to the possibility of the growth of the federal government.

All this depends, of course, on continued good business in coming years. Economists in and out of government currently think the six-months-old $11.5 billion tax cut will assure that growth. President Johnson's Council of Economic Advisers expects that business expansion will continue at a pace that would produce a balanced federal budget in the fiscal year 1967, if spending stays put.

A budget surplus of income over outgo also depends on holding down government spending. Openhanded U. S. outlays could eat up any revenue gains.

If business turns down or free-spending policies gain an upper hand, therefore, the gradually ballooning debate could shrivel.

But at present few economic policymakers in Washington expect such things to happen. Some are beginning to fashion a philosophy that will encourage both tax cuts and rising spending accompanied by steady additions to the national debt.

Behind this group lies the philosophy that the national debt doesn't matter. The argument is that, by statistical measures, the debt is becoming a relatively lighter burden for the nation to carry.

As long as the interest costs don't impose too great a burden, it's argued, the debt can continue to grow.

What's more, this group will argue even more intensively as debate over the next tax cut grows that continued government spending puts more money in circulation, spurs consumer spending and thereby helps create jobs. Therefore, the argument goes, federal deficit spending will be necessary whether taxes are cut or not in order to reduce unemployment and keep the economy growing.

This kind of economic thinking, opponents warn, can open the door to ever higher federal spending, undisciplined by the need to raise the money that pays the bills.

"If legislative assemblies can finance expenditures yielding current benefits without levying current taxation, few or no restraints will be placed upon the limits to such spending," warns James M. Buchanan, professor of economics at the University of Virginia and a recognized authority on government debt.

Congressional concern over deficits

Concern over the ramifications of continued deficits runs high among important congressional leaders.

Both Rep. Wilbur D. Mills of Arkansas and Rep. George H. Mahon of Texas, Democratic chairman of the House Ways and Means and House Appropriations Committees respectively, strongly favor an end

to deficits and a start on debt reduction. (See articles on pages 30 and 32). It was Mr. Mills who led congressional demands last year that the Administration agree to hold down spending in return for the record tax cut finally passed this year.

Thus, battle lines are clearly discernible for the future squabble over spending, tax cuts or debt reduction.

Although these three alternatives—plus a mixture of the three—face economic policymakers, the choice isn't really that wide. Tax reductions will almost certainly be a part of any package for making use of surplus revenues. The recent tax bill debate pretty much united business, Congress and the Administration on the wisdom of spurring the economy via tax reductions which lead to increased consumer spending and industrial expansion.

The main debate is much more likely to be over whether or not to apply some of the anticipated revenues to reduction of the national debt while restraining spending.

The case for whittling the federal debt rests chiefly on broad economic reasons, moral reasons, high cost of government reasons and antired-tape reasons.

Dealing with broad economic policy, Dr. Marcus Nadler, professor of finance in New York University's Graduate School of Business Administration, sees debt reduction in boom times as an essential step if the government expects to promote economic stability in bad times.

Dr. Nadler explained to NATION'S BUSINESS: "The best argument for reducing the national debt is this: For sound fiscal policy, the government should have a surplus instead of a deficit in good years. This will give the government greater freedom to run a deficit if necessary to help the economy in bad years. The public then won't be so scared of a deficit when it is needed."

Deficits hurt confidence

Similar concern for the impact of continued government deficits on the nation's confidence worries another leading economist, Martin Gainsbrugh, vice president of the National Industrial Conference Board.

"The federal deficit has a definite relationship to business and consumer confidence," says Mr. Gainsbrugh. "The government should demonstrate its capacity to live within its income. Here in the fourth year of expansion we are still operating with a deficit. How high would the deficit climb in a period of economic contraction when we must run a deficit during expansion?"

Mr. Gainsbrugh goes on to point out that the continuous growth in the national debt can impair U. S.

WHEN UNCLE SAM WAS OUT OF DEBT

Think kindly of Levi Woodbury.

This New Hampshire politician was Secretary of the Treasury in 1835 and 1836 when the U. S. government was out of debt for the first and only time.

Big income from sale of western land, customs receipts and collection of claims against European countries enabled Andrew Jackson's Administration to call in all debts and order a $35 million surplus distributed to the states.

Federal receipts of $35.4 million in 1835 more than doubled spending of $17.6 million.

policies abroad. "This is no great testimonial to the conservative economic discipline we want Latin America to demonstrate."

Economic wisdom aside, debt-whittling should get under way, many advocates insist, for reasons of moral responsibility. One generation of taxpayers, it's argued, should not pass along the burdens of its overspending to taxpayers of later years. General Eisenhower vigorously supports this view.

Some economists scoff at this reasoning. They maintain that the burden of the debt falls on taxpayers at the time the nation runs a deficit. Individuals give up money they might otherwise use for personal spending in order to buy government securities.

Professor Buchanan, however, asserts that purchase of government debt securities is no hardship because investors receive interest on the securities they buy. No one forces them to buy the securities. But citizens who are forced through taxes to put up the money that pays the interest and retires the securities in later years do bear the financial burden.

"With the public debt in existence," Professor Buchanan says, the taxpayer "is subjected to a coercive levy imposed in order to finance the interest payments on the debt. This is the real burden of the public debt."

Although the professor says he doesn't feel any moral obligation to help repay past borrowings used to finance World War II, for instance, other debt-reduction advocates think a start should be made.

Just by being there, the mountainous national debt adds to the costs and complications of government. Eleven cents of every tax dollar this year will go for interest on the debt. This $11 billion charge practically equals the $11.5 billion taxpayers will keep for additional spending and investing as a result of the 1964 tax cut.

The administrative costs alone of managing the debt exceed $41 million a year. Some 2,100 federal employees in Washington, Chicago and Parkersburg, W. Va., do nothing except handle debt problems.

Few people envision any quick amortization of the whole national debt, to be sure. But any reductions in the amount of money the government must raise in public money markets to finance new deficits as well as to retire maturing securities would also reduce the red tape involved in such operations, officials explain.

These headaches strike chiefly at the Treasury, which manages the government's debt.

"It would certainly make our job much easier if the debt could be reduced," says one Treasury official who deals with debt management.

Look close at debt

For an understanding of this man's problems and of the national debt's role in the economy, take a close look at it and where it came from.

About two thirds of today's approximately $312 billion national debt—some $220 billion—resulted directly from borrowing money during World War II. The government owed $49 billion on June 30, 1941, and $269 billion at the end of the first fiscal year after V-J Day, June 30, 1946.

In the 18 years since then, the government has gone $43 billion deeper in debt, almost as much as in the entire 152 years between George Washington's first inauguration and Pearl Harbor.

President Johnson estimates the government will run another $5.8 billion deficit this new fiscal year. The last reduction the country made in the national debt was a $2 billion cut in 1957.

Congress sets a limit on the national debt through legislation. In June, it voted to raise the limit to $324 billion temporarily for the present 1965 fiscal year.

Actually, Uncle Sam owes more than the debts controlled by the debt limit. Some $360 million of various older securities don't count because of legal differences.

But in reality few in Washington see the limit as any real barrier to new federal debts. A Congress that votes new spending projects is likely to endorse increases in the debt limit. The process of raising the limit, however, spotlights Administration spending policies and acts as additional discipline in favor of economy.

In handling its debt, the government has many of the problems of a company or any other private borrower. It seeks to keep the interest rates it pays as low as it reasonably can. Uncle Sam now pays an average interest rate of 3.55 per cent, up from 3.44 per cent last year. It wants to space out the times when its debts must be repaid so that all don't come due at once. It must anticipate periods when lots of bills come due such as payments to defense contractors, at the same time that receipts—tax payments in Uncle Sam's case—are low. So it borrows money for varying lengths of time ranging from several weeks to many years.

But the Treasury must also worry about problems which don't directly influence private borrowing. These problems stem from the influence government financing can have on the country's economy in general.

When the government borrows money, it doesn't fool around. It usually raises $1 billion or more at a crack. This means federal borrowings soak up many more investment funds than does any other borrower. Thus, borrowing by the government can take funds out of circulation which might otherwise be invested in business expansion.

Administration money-managers, therefore, can time their borrowings to influence the economy if they think it advisable. When policy-makers think interest rates are generally too low, for instance, they can borrow in a fashion that strengthens rates by taking investment funds off the market. In recent months, the Treasury has attempted to avoid borrowings which would absorb funds which business needs—and thus risk pushing interest rates so high they would contribute to an inflation spiral.

In general, experts on the national debt advise the government to do what's known as lengthening out the debt. That is, finance a larger share of the debt with bonds and other securities that must be repaid a number of years in the future. Well spaced borrowings of this sort, it is argued, mean urgent government demands for money would not upset the money market as much as they can now.

Administrations of the last three Presidents—Eisenhower through Johnson—have all tried to lengthen the debt with varying degrees of success. Treasury officials report

Election-year goals
of organized labor
are disclosed by
AFL-CIO leader
in article on **page 38**

with considerable pride that the average length of government securities to repayment date has stretched to five years and one month compared with four years and two months at the post-war low point in the fall of 1960. The longest term Treasury securities outstanding as of the end of June were $4.4 billion of 3½ per cent bonds which mature in November 1998.

Occasionally officials toy with following Britain's example of issuing securities which never must be repaid. The government simply continues to pay interest on them. The musings have rarely received much support.

Investors use securities

Even if they could, however, today's Treasury managers would hardly put all the debt in long-term bonds. One of the principal reasons is that many businesses, banks and other investors rely on 91-day U. S. Treasury bills and other short-term federal securities as a safe means of investing temporarily idle funds they expect to use soon for other purposes.

The impact of the debt on the economy depends on its ownership as well as on its size and its length. Uncle Sam can't simply borrow from whomever is willing to lend the funds. Borrowing from banks adds to inflationary pressures because it adds to the amount of money in circulation. The U. S. not only spends the money it has borrowed but the banks can use the federal securities they receive as the basis for borrowing additional money from the Federal Reserve system, thus permitting more lending.

But when the federal government borrows from individuals via savings bonds or from other private non-bank establishments, it takes money out of circulation. This, economists point out, has a dampening effect on the economy. As a result, the Treasury mixes up its borrowing depending on the state of the economy and on what the Administration in power wants to achieve. The ownership mix as of last March, for example, showed the banking system held 31 per cent of the national debt, government investment accounts such as the social security system held 19 per cent, individuals held 22 per cent and other investors such as insurance companies and state and foreign governments held the rest.

How do Treasury managers alter this profile? By offering debt issues

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THE PUBLIC DEBT

continued

with differing conditions attached. Some securities, such as the common Series E savings bonds, can be bought only by individuals and firms. Some securities may not be purchased by banks. Others can be. Some securities may be transferred freely; others carry restrictions.

How debt will be cut

Who owns what will get added attention whenever the U. S. decides to reduce the debt. When that year comes, the Treasury will simply cut down on its borrowing, rather than dramatically calling in certain securities for repayment ahead of schedule, officials expect. A mixture of securities come due every year. The Treasury would probably make new borrowings to repay some of these securities—an operation known as rolling over the the debt. But it would pay off others with cash on hand, thus making a net reduction.

The impact of the debt retirement on the economy would be determined largely by which group of investors shows a net reduction in its holdings of federal securities.

Economists differ as to the net effect of a general debt reduction. Much depends on who gets what funds and the state of the economy at the moment.

Uncle Sam's payments in general would add to the supply of money investors have for spending or investment in private enterprise, Professor Buchanan and other economists point out. An investor whose bonds are redeemed by the government isn't likely to stick the money in the ground. He'll probably put it to use in some other investment. Thus debt reduction could help spur business expansion and create jobs.

On one result, many economists agree: National debt reduction could indeed go too fast. Large amounts of new investment funds pumped into the economy at a time when everything was running full blast with empioyment could spur inflation.

There's little danger that the Administration or Congress will get tangled in such a dilemma. Further tax cuts will get high preference in most official thinking as of today. But the case for an end to deficits and for a start on debt reduction will be argued vigorously. **END**

WHO PAYS WHOM

Practical businessmen and economics textbooks agree on this point:

When you let someone use your money temporarily, you should receive interest in return.

This is true most of the time.

But there's one big exception: When Washington uses your money. If you want some back to do things in your own community, you don't get interest. In fact, you get back less than you put in.

Doesn't make much sense, does it?

It would be better to keep the money at home in the first place.

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